

1935

Certified public accountant, 1935 Vol. 15 July-December

American Society of Certified Public Accountants

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_news

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Society of Certified Public Accountants, "Certified public accountant, 1935 Vol. 15 July-December" (1935). *Newsletters*. 68.
https://egrove.olemiss.edu/aicpa_news/68

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Newsletters by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

**THE
CERTIFIED PUBLIC
ACCOUNTANT**

VOL. 15

**July to December
1935**

20 Cents

The

July, 1935

CERTIFIED PUBLIC ACCOUNTANT

Official Organ of The American Society of Certified Public Accountants

The Accountants Publishing Co.



In This Issue

	PAGE
<i>A Privilege</i> —WILLIAM C. HEATON	387
<i>Kansas City Meeting</i>	388
<i>Vigilance for Security</i> —(Reprint from Canada)	388
<i>State Representatives, 1935-1936</i>	389
<i>The Weak Link in the Financial Statement</i> SAMUEL BERTCHER	391
<i>Basis of Accountant's Remuneration</i> —(Reprint from England)	393
<i>Some Income Tax Decisions of the Supreme Court</i> H. L. KUNZE	395
<i>Accounting for Serial Bonds</i> —LESLIE McREYNOLDS	399
<i>The Accountant's Responsibility</i> —GEORGE PRICE ELLIS	403
<i>Regulation of County and City Audits in Idaho</i> TRUMAN JOINER	406
<i>Accumulation of Income by Non-Profit Corporations</i> H. ARNOLD STRANGMAN	410
<i>Expenditure Incurred in Earning Income</i> (Reprint from Australia)	412
<i>Greeks Had Word for It: Still a Sales Tax Scheme</i>	414
<i>D.R.O.P.</i> —HAROLD H. HAIGHT	415
<i>Accounting Office Administrative Problems</i> Discussion at Annual Meeting	418
<i>Homer Adams Dunn</i>	430
<i>It's Hard Sometimes</i>	432
<i>Talking Shop</i> —LEWIS GLUICK	433
<i>Wee Bits on Accountancy</i> —LOUIS S. GOLDBERG	437
<i>Questions and Answers Department</i> —STEPHEN GILMAN	437
<i>State Society News</i>	441
<i>C.P.A. Examination Questions, May, 1935, Accounting Theory</i>	444
<i>Notes</i>	447
<i>Announcements</i>	447

To those who plan to take the next C.P.A. examination

IN addition to its regular Course, the International Accountants Society, Inc., offers a special Coaching Course for Accountants who are planning to take the C.P.A. Examination.

This Course will be supplied only to those who are already competent accountants, as no attempt is made to teach general accounting in this course. The instruction is pointed directly at the C.P.A. Examination.

Something more than a knowledge of accounting is necessary to insure success in the examination room.

Solving examination problems is vastly different from the usual work of making

Particularly noteworthy features of the training are:

100 problems in Practical Accounting with solutions and comments

100 questions and answers in Accounting Law

100 questions and answers in Auditing

100 questions and answers in Theory of Accounts

Elaborate explanations and comments that include, in addition to the finished statements or solutions, such items as suggestions for "Notes to the Examiner," working sheets, side calculations, use of proper terminology, and discussions of authoritative opinions.

Problems and questions (1) actually used in a C. P. A. or an A. I. A. examination, or (2) specially prepared to train the candidate in handling certain points likely to be encountered in the examination.

Personal correction, criticism, and grading of every examination paper by a Certified Public Accountant who has himself passed the C. P. A. examination. There are sixteen such Certified Public Accountants on the Active Faculty of the International Accountants Society, Inc.

audits, installing systems, or conducting investigations. Many men with little or no practical experience can solve C. P. A. problems readily—many others with years of experience flounder pitifully in the examination room. WHY? The candidate is required to work at top speed. He must work with limited information. He has to construct definitions. Very often it is necessary for him to use unusual working sheets.

The C. P. A. Coaching Course given by the International Accountants Society, Inc., prepares you to meet such conditions. The fee is \$42, and the text consists of twenty lessons.

A BOOKLET, "How to Prepare for the C.P.A. Examination," is available for those who are interested. For a free copy, just write your name and address below and mail.

INTERNATIONAL ACCOUNTANTS SOCIETY, Inc.

A Division of the ALEXANDER HAMILTON INSTITUTE

To the International Accountants Society, Inc., 3411 South Michigan Avenue, Chicago, Illinois.

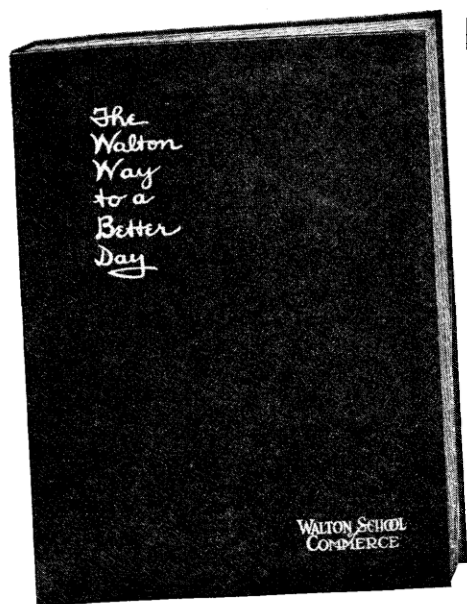
Send me the special booklet, "How to Prepare for the C. P. A. Examination," which describes your special Coaching Course for Accountants.

Name _____ Company _____

Address _____

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

THIS BOOK--



Has Pointed the Way to **SUCCESS and INDEPENDENCE**

To Many Men

Within its covers is presented the remarkable story of the part Accountancy plays in modern business. It tells how you may, through Accountancy training, prepare yourself for the highest executive positions in the business world. An inspiration to thousands of ambitious young men and young women, this book recounts in an interesting way the success stories of hundreds of men and women who give Walton training credit for their attainment of coveted goals. It is yours for the asking.

The WALTON Record

More than ten per cent of all the Certified Public Accountants in the United States have had Walton training. For nine successive years Walton trained men won high honors in American Institute examinations. Twenty-three honor medals have been awarded Walton candidates in Illinois C. P. A. examinations. Over 250 collegiate schools of commerce use Walton texts and Walton methods in their classrooms. This record of achievement is unrivalled by that of any other school, college, or university.

Learn Right at Home

Without giving up your present position, you can master the principles of Accountancy in your own home. Remember this—more than 80 per cent of the successful Walton candidates in C. P. A. examinations secured their training through Walton home study instruction. You, too, can do it. Send for "The Walton Way to a Better Day" now—get started on your path to Success and Independence.

*Day and Evening Classes and
Home Study Instruction*

WALTON SCHOOL of COMMERCE

Member National Home Study Council

Charles H. Langer, Ph.B., C.P.A.
President and Educational Director
519-529 McCormick Building
CHICAGO

MAIL THIS COUPON NOW!

Check the courses in which you are interested
They may be taken in combination or separately.

- ☐ CONSTRUCTIVE ACCOUNTING
- ☐ ADVANCED ACCOUNTING AND AUDITING
- ☐ COST ACCOUNTING
- ☐ BUSINESS LAW
- ☐ FEDERAL INCOME TAX ACCOUNTING
- ☐ MATHEMATICS OF ACCOUNTING AND FINANCE
- ☐ C.P.A. COACHING
- ☐ MERGERS AND CONSOLIDATIONS

I am Interested in { ☐ Home Study Instruction
☐ Resident Day Classes
☐ Resident Evening Classes

WALTON SCHOOL OF COMMERCE
519-529 McCormick Bldg., Chicago

Please send me, without obligation, complete descriptions of courses checked above, also copy of your book, "The Walton Way to a Better Day."

Name
Address
City and State
Occupation..... Age.....

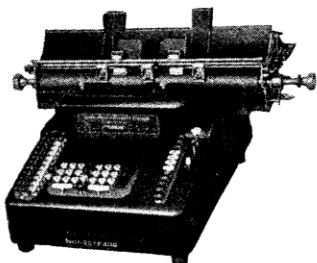
WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

NOT JUST ONE TYPE OF MACHINE...

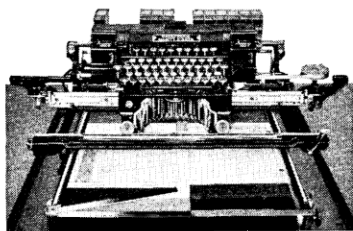
3 Types!



*Underwood Model
Underwood Elliott Fisher Accounting Machine*



*Sundstrand Model
Underwood Elliott Fisher Accounting Machine*



*Elliott Fisher Model
Underwood Elliott Fisher Accounting Machine*

● An Underwood Elliott Fisher Accounting Machine always fits the requirements of the job...it is never necessary to fit the job to the machine. The reason is that Underwood Elliott Fisher makes three distinct types of machines with a wide variety of models in each.

Whether you have a machine accounting problem or not...whether you are interested in machine accounting or not...you are invited to inspect the complete Underwood Elliott Fisher line, if for no other reason than that of keeping yourself informed on the latest machine accounting developments.

. . .

Underwood Elliott Fisher maintains a library of Machine Accounting Applications that is available for the use of all accountants. You are invited to make free use of it.

Accounting Machine Division

UNDERWOOD ELLIOTT FISHER COMPANY

*Accounting Machines...Typewriters...Adding Machines
Carbon Paper, Ribbons and other Supplies*

342 Madison Avenue, New York, N. Y.

Sales and Service Everywhere

**UNDERWOOD
ELLIOTT FISHER**
ACCOUNTING MACHINES



• • Every Underwood Elliott Fisher Accounting Machine is backed by nation-wide, company-owned service facilities.

Underwood Elliott Fisher Speeds the World's Business

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

The Certified Public Accountant

DEVOTED TO THE INTERESTS OF THE C.P.A., HIS CLIENT, AND THE PUBLIC WELFARE

VOL. XV

July, 1935

No. 7

Editor: DURAND W. SPRINGER. Published monthly by The Accountants Publishing Company. *Publication office:* Candler Building, Baltimore, Maryland. *Editorial office:* National Press Building, Washington, D. C. All communications for publication should be addressed to the Editorial office, National Press Building, Washington, D. C. *Subscription price:* A year of 12 issues, \$2.00; twenty cents a copy. Entered as second-class matter, January, 1934, at the post office at Baltimore, Md., under act of March, 1879.

"When we have nothing to do we do something; and just as surely as we do something when we have nothing to do, something to do turns up."

—WILLIS PARKER.

The President's Page A Privilege

By WILLIAM C. HEATON, C.P.A.

THERE is a frequently quoted passage from the writings of Francis Bacon which reads as follows:

"I hold every man a debtor to his profession; from the which as men of course do seek to receive countenance and profit, so ought they of duty to endeavor themselves, by way of amends, to be a help and ornament thereunto."

The primary duty of every man is to practice his profession honestly and proficiently and with a lively consciousness of his obligations to society. This is by far the most effective way in which he can be "a help and ornament thereunto."

There are, however, other ways in which he can contribute to his profession. He may share his thoughts and knowledge by publication of them. He may serve professional organizations by accepting official responsibilities and committee appointments. Some of the most effective service is rendered in committee work. He may and often does lend a helping hand to fellow practitioners when opportunity offers.

The opportunities for service to one's profession briefly and incompletely enumerated above, do not include contributions of money for organization and research work in the future.

Recently The American Society of Certified Public Accountants, by authority of the Board of Directors, has announced the establishment of a Foundation Fund, offering an opportunity for all certified public accountants to contribute for the protection of their certificates and the advancement of the profession. Small contributions only have been suggested. A number of responses have been received which clearly show that the contributors regard the opportunity more as a privilege than a duty.

It is with the thought of emphasizing the "privilege" rather than the "duty" that these words are written.

Kansas City Meeting

THE 1935 meeting of The American Society will be held at Hotel Muehlebach, Kansas City, Monday, Tuesday, Wednesday and Thursday, September 30 and October 1, 2 and 3.

Monday will be given over to conferences of State Society officials in one group and State Board members in another. Tuesday morning will be the Convention of State Representatives and Tuesday afternoon President Heaton's annual address. Wednesday and Thursday will have such general subjects as Technical Problems, Municipal Accounting, Federal Government Relations and Cooperative Groups.

Vigilance for Security*

ONE of the most important developments of recent years in stock exchange practice in Montreal has been the progressive advancement in supervision of audits which has now reached a point that ensures the fullest possible protection to those who buy and sell securities through member firms of the Montreal Stock Exchange and the Montreal Curb Market.

Twice each year, under present By-laws, member firms of these Exchanges must present satisfactory evidence of a sound financial position. One audit is made at a fixed date, and the second, a surprise audit, is made not earlier than four months or later than eight months from the date of the permanent audit.

These audits must be made by an independent auditor appointed by the Exchange and selected from a panel. The statements of assets and liabilities are scrutinized by a supervising auditor, officially appointed by the Exchange for that purpose. He it is, and he alone, who fixes the date of the surprise audit. The utmost secrecy surrounds this date in order that no previous intimation may be given.

In the determination of a sound financial position, no allowance is made for value in exchange seats or memberships; or for any real estate which the firm may own; or for debts owing, unless these be secured by marketable collateral. In short, only fully liquid assets may be considered in that side of the balance sheet, while liabilities must be all-inclusive.

It has become a bounden duty, of those charged with the responsibility, to maintain an active supervision of each and every firm which subscribes to the By-laws and regulations which govern trading on the Montreal Stock Exchange and the Montreal Curb Market.

Eternal vigilance is the price of security.

*From the May, 1935 issue of Montreal Stock Exchange and Montreal Curb Market Monthly Review.

Newly Elected State Representatives

1935-36

(States without an election will be reported next month)

ALABAMA—

Gilbert F. Dukes, First National Bank Building, Mobile.

ALASKA—

Erling Johansen, P. O. Box 266, Petersburg.

ARIZONA—

Alex W. Crane, P. O. Box 274, Phoenix.

ARKANSAS—

Lyle B. Croft, Southern Building, Little Rock.

CALIFORNIA—

Arville R. Cooper, C. C. Chapman Building, Los Angeles; Willis C. Graves, Standard Oil Building, Los Angeles; Harry B. Mills, 3723 Wilshire Boulevard, Los Angeles.

COLORADO—

Theodore J. Witting, First National Bank Building, Denver.

CONNECTICUT—

Irville A. May, 367 Union Avenue, West Haven.

DELAWARE—

Alfred H. Coe, du Pont Building, Wilmington.

DISTRICT OF COLUMBIA—

Goodwin P. Graham, Metropolitan Bank Building, Washington; James B. Grice, Munsey Building, Washington.

FLORIDA—

Clyde A. Epperson, Ingraham Building, Miami.

GEORGIA—

William J. Carter, Citizen & Southern National Bank Building, Atlanta.

IDAHO—

George B. Middleton, Sonna Building, Boise.

ILLINOIS—

Eric Louis Kohler, One LaSalle Street, Chicago.
George W. Rossetter, 33 North LaSalle Street, Chicago.
Hiram T. Scovill, Commerce Building, Urbana.

INDIANA—

John S. Lloyd, Guaranty Building, Indianapolis.

IOWA—

Fred J. Peterson, Insurance Exchange Building, Des Moines.

KANSAS—

Harley W. Gifford, New England Building, Topeka.

KENTUCKY—

Sam W. Eskew, Kentucky Home Life Building, Louisville.

LOUISIANA—

Louis H. Pilie, Pere Marquette Building, New Orleans.

MAINE—

Fred R. Gould, P. O. Box 17, Standish.

MARYLAND—

Edward J. Stegman, Mercantile Trust Building, Baltimore.

MASSACHUSETTS—

George L. Bishop, 68 Devonshire Street, Boston.
Edwin L. Pride, 40 Central Street, Boston.

MICHIGAN—

Thomas H. Evans, Dime Bank Building, Detroit.
Francis E. Ross, State Savings Bank Building, Ann Arbor.

MINNESOTA—

Lyle W. Hines, First National Bank Building, St. Paul.

MISSISSIPPI—

A. L. Evans, Bank of Gulfport Building, Gulfport.

MISSOURI—

Parry Barnes, Insurance Exchange Building, Kansas City.

NEBRASKA—

Ellsworth L. Fulk, Sharp Building, Lincoln.

NEVADA—

Lawrence J. Semenza, 141 Vine Street, Reno.

NEW JERSEY—

Julius E. Flink, Raymond-Commerce Building, Newark.

Charles L. Hughes, 120 Garrison Avenue, Jersey City.

NEW YORK—

Alexander S. Banks, 21 West Street, New York.

Walter N. Dean, 40 Rector Street, New York.

William R. Donaldson, 80 Broad Street, New York.

A. S. Fedde, 110 William Street, New York.

William J. Forster, 18 East 48th Street, New York.

Joseph J. Klein, 19 West 44th Street, New York.

Simon Loeb, 521 Fifth Avenue, New York.

Charles S. McCulloh, 100 Broadway, New York.

Henry E. Mendes, 80 Maiden Lane, New York.

Prior Sinclair, 90 Broad Street, New York.

Norman E. Webster, 50 Broadway, New York.

NORTH CAROLINA—

Thomas P. ZumBrunnen, Wallace Building, Salisbury.

NORTH DAKOTA—

Palmer C. Bakken, 410 Main Street, Bismarck.

OHIO—

Gordon S. Battelle, 121 West Second Street, Dayton.

Walter D. Wall, 44 West Gay Street, Columbus.

OKLAHOMA—

Homer C. Hammonds, Hightower Building, Oklahoma City.

OREGON—

Ezra M. Wilson, City Hall, Medford.

PENNSYLVANIA—

James M. Cumming, Union Trust Building, Pittsburgh.

Edward P. Moxey, Jr., 1421 Chestnut Street, Philadelphia.

Clarence L. Turner, Perry Building, Philadelphia.

PUERTO RICO—

William A. Waymouth, P. O. Box 54, San Juan.

RHODE ISLAND—

John J. Wall, Hospital Trust Building, Providence.

SOUTH CAROLINA—

Martin T. Powers, Broad & Church Streets, Charleston.

TENNESSEE—

Harry M. Jay, Commerce Title Building, Memphis.

TEXAS—

J. Glenn Bixler, Mills Building, El Paso.

UTAH—

Lincoln G. Kelley, Walker Bank Building, Salt Lake City.

VERMONT—

Clarence S. Springer, 13 Oak Street, Brattleboro.

VIRGINIA—

George T. Durham, State-Planters Bank Building, Richmond.

WASHINGTON—

Paul R. Strout, Henry Building, Seattle.

WEST VIRGINIA—

S. Charles Steele, Monongahela Building, Morgantown.

WISCONSIN—

Carl E. Dietze, 213 West Wisconsin Avenue, Milwaukee.

WYOMING—

Ossie M. Cordle, Consolidated Royalty Building, Casper.

The Weak Link in the Financial Statement

by SAMUEL BERTCHER, Credit Manager of Edmund Wright Ginsberg Corporation, New York City, and former President of the New York Chapter of the National Institute of Credit

IN the women's apparel industries, the employment of certified or public accountants has constantly increased. The National Credit Office, one of the major commercial agencies in this country, estimates that at the present time over 70% of the manufacturers are employing certified public accountants.

In addition, in the preparation of financial reports, a good percentage of the assets and liabilities are independently verified by the accountant as revealed by the following figures submitted by them:

(1) 60% verified the accounts receivable and the accounts payable.

(2) In 25% of the audits, inventory taking was supervised by the accountants.

(3) In 40% of the audits, inventories were verified as to mathematical accuracy only.

(4) In 35% of the audits, inventories were accepted by the accountants "as submitted."

The weak link in most of the financial statements submitted is the absence of verified inventories. In a great many statements, the inventory represents as much as 50% of the total assets. Where the accountant has verified all the other items in the statement, and has accepted the inventory "as submitted" the verification is devoid of strength. An inventory taking which is not supervised by the accountant, nor checked for clerical accuracy, is of doubtful value, and must be regarded as the weak spot in the accountant's report.

Three obstacles have stood in the way of complete verification of inventories. They are:

(1) Whether accountants are competent to supervise inventory taking in all its ramifications.

(2) The accountants' responsibility in connection with certification as to the cor-

rectness of the inventory.

(3) The limitation placed on the scope of the audit by the client because of cost.

At the joint session of credit executives and certified public accountants held in December, 1933, Warren W. Nissley, C.P.A., touched on these problems when he was asked the following question: "Where the inventory shown on the financial statement is a substantial amount, and has not been taken by the certified public accountant or under his supervision, but was certified to by the management of the concern, should the certified public accountant certify to the correctness of the statement, even though the certified audit is qualified with respect to this particular item, assuming of course that the other items listed on the statement have been verified and appraised?"

Mr. Nissley's reply, in part, follows: "The propounder of the question may have had in mind certain of the garment industries where physical inspection and count of stock may be relatively simple. Here the credit grantors may have come to expect that the accountant should take full responsibility for the inventory facts as well as its value as a matter of routine. If there were a demand that the facts as to all inventories should be verified by accountants, I think it could be done as a gradual development. It would involve a vast volume of additional work and it would be necessary to have technical experts in many lines of business on accountants' staffs available for consultation. *But the controlling factor is the cost.* You may have some cases in which you may think the risks justify the expense of having accountants take full responsibility as to all of the inventory facts as well as of the values. If so, I am sure the accountant will do so for a proper fee, even though

he has to employ outside experts to assist him."

Mr. Nissley concedes it to be within the competence of the accountant, with such assistance as may be necessary in certain industries, to take or supervise the taking and evaluating of inventories. In the garment industries he states it is relatively simple, and he is correct. Here it is unnecessary for accountants to call in experts for evaluation purposes. Purchase invoices, sales books, calculation records, etc., enables the accountant to supervise inventory taking without any difficulty. Piece goods, trimmings, goods in process, and finished garments, are easily evaluated.

With respect to the matter of responsibility, the Federal Reserve Board's Pamphlet on Verification of Financial Statements, revised in May, 1929, reads as follows:

"The auditor's responsibility with regard to inventories falls naturally into three main divisions.

"(a) Clerical accuracy of computations, footings, and recapitulations.

"(b) Basis of pricing.

"(c) Quantities, quality, and condition.

"The auditor's responsibility under the first two headings is clear. He must undertake sufficient investigation of the inventories to satisfy himself that the clerical work has been accurately done and that the goods are valued in accordance with the usual commercial practice—that is, at cost or market, whichever is lower . . . The auditor must, however, use diligence in every case to convince himself that quantities, quality, and condition are correctly recorded."

There is no reference in the Federal Reserve Board's pamphlet to "as submitted" inventories. On the contrary, the Board specifically admonishes the accountant as to his responsibility, and necessity for diligence in connection with the matter of inventories. The profit and loss statement is absolutely dependent upon the accuracy of the inventories at the beginning and at the end of the period under review, and the Board recommended that inventory verifications should receive special attention.

The New York State Society of Certified Public Accountants took cognizance of the matter of inventories by appointing

a committee to make a survey of the "Accountants' Responsibility for Inventory" and in 1930 the committee issued its report. There seems to have been some difference of opinion in the committee as to whether special reference to the inventory should appear on the balance sheet, or in the footnotes, or in the certificate, but the committee agreed that the nature of the audit respecting inventory should be somewhere stated.

In part, the report reads: "The certified public accountant does wish his statements to be sound and reliable. He wants and intends to do what is reasonably necessary to that end. He wants no misunderstanding and no misconception as to what he has done and the reliance which can be placed thereon." Subsequently, resolutions were passed by the Society in which it was stated that the accountant has no responsibility beyond exercising normal care in his examination by making tests and checks of the concern's books of account and other available records pertaining to merchandise inventories.

With the increasing use by credit men of financial statements prepared by certified public accountants the fragile part of the balance sheet must be strengthened. Consideration of this question from all angles leaves but one conclusion and that is that the accountant should assume a definite position where inventories are concerned.

It should be stated at this point that there is no intention to unduly overwhelm the accountant with burdens, but rather it is intended to increase his sphere of usefulness to his client and the business community. This is an effort in the direction of better statements, the consummation of which would be a contribution to a healthier business structure, and a sounder basis for the extension of credit. There is no doubt that all certified public accountants desire to assist in any possible improvement in the economic structure.

Credit men do not conceive the accountant to be a mere checker of figures. His sphere transcends that limited conception. The more he widens that sphere, the greater is his usefulness, and the desirability of his services. The accountant's value to his client and the business community has in-

creased in accordance with developments in the direction of more thorough audits.

This brings us to the third obstacle to complete verifications of balance sheets—namely, limitation by the client on the scope of the audit because of cost. The principal objection here is the reluctance of clients to spend money for additional work by the accountant, and to face the facts which thorough auditing may develop. For the accountant to urge that increased expenditure, might be thought not entirely altruistic. With the cooperation of credit men, however, the accountant is in a stronger position to recommend supervision and verification of inventories.

In the women's apparel industries, relative simplicity of inventory supervision precludes increased prohibitive costs. A process of education is required to make this additional cost justifiable to the merchants. As Mr. Nissley put it—"If there were a demand that the facts as to all inventories should be verified by accountants, it could be done as a gradual development." That demand exists today and is evidenced

by the fact that 25% of inventory taking in these industries is supervised by accountants.

The manufacturer who limits the scope of his audit deprives himself of the complete information necessary for effective management. A reduction in overhead expense, or resistance to its increase, may be necessary at times, but the primary importance of thorough audits must not be lost sight of. Knowledge of existing facts is fundamental, and it therefore follows that thorough audits are extremely important.

Depressed economic conditions have accelerated the problems of credit granting and as a result, information furnished by accountants has become a very important part of the basis for credit granting. Certification of inventories is the next forward step in the accounting profession. It is an inevitable development and many accountants have already recognized this opportunity for service. In the march of progress, accountants can most certainly rely upon the cooperation of credit grantors and progressive merchants.

The Basis of Accountants' Remuneration*

WE are glad to give publicity in this issue to a letter we have received which is prompted by a case recently reported in our *Tax Supplement*. We do not desire to refer to the details of that particular case, especially as the claims there made were ultimately settled on a basis not disclosed; but we agree with our correspondent that a very important question of principle is raised, and that the opportunity to ventilate it ought not to be lost. We desire to emphasize that we are not discussing the question of law whether an accountant is entitled to enforce a contract which he alleges was made in his favour, nor are we here referring to the subsidiary, though important, point, whether an arrangement for percentage

remuneration ought to be enforceable in respect of benefits which might have accrued to the client had he not disregarded the advice given him by the accountant. The whole question is whether the making of an arrangement whereby an accountant is to be paid on the basis of results achieved, runs counter to the interests of the profession as a whole.

We have no doubt that there is a general feeling that these arrangements ought to be made only in very exceptional circumstances. It is true that there is no written rule of the Institute which deals with the matter, but we may refer to a report of a case at page 29 of our issue of 5th July 1930 where the late Mr. F. W. Pixley was called as a professional witness. Being asked "What do you say is the position with regard to payment by results?" he replied, "That is a matter which has come up on several occasions at meetings of the Council, and, from re-

*The June 22 issue of *The Accountant*, the recognized weekly organ of Chartered Accountants in England, presents this as its leading editorial, following which there is reprinted the letter to which reference is made in the editorial.

marks I recollect having heard, members consider it is unprofessional to accept any matter of business on payment by results. We do not think it is a proper thing to do." We think that that statement fairly represents the feeling which was current at the time it was made, and which remains as reflecting the best professional opinion of the present day. The correspondent whose letter we now publish brings forward an apposite quotation from a speech made by Sir John Simon, in which he justly points out that "The work that we do must be rendered to our clients, without stint, in proportion to our clients' needs, rather than in proportion to the reward which we receive." That puts into words the expectation which is probably in the mind, though unexpressed, of every client when he seeks the assistance of a professional man; he expects that the advice he is to receive will be the best advice the professional man is able to give, and that the quality of that advice will not be influenced in any way by the fee which is to be paid. We may remark in passing that that is the true principle on which undercutting of fees ought to be rejected; that is to say, the accountant who commences with a fee incommensurate with the attention he ought honestly to give to the case disables himself in advance from doing his ethical duty to his client. In all engagements the client ought to be able to assume that his professional adviser will put forward the best efforts which the case demands, irrespective of any special inducement by way of fee, and undiminished by reason of any lowering of the usual standard. If this is not true, all clients who pay the normal fee are, in a sense, defrauded, because they receive less than the maximum service which they may expect as their right in return for payment of the fee which has been asked.

In the comments which we made in July 1930 on the case which has been cited above, we pointed out that while there may be circumstances in some cases which justify departure from the general rule, that general rule stands unassailed and everything which we then said remains, in our opinion, true to-day. In matters of income-tax the general rule seems to us to apply with special force. Where ac-

countants are concerned with income-tax the idea of public policy can never be wholly excluded. That is to say, when an accountant is engaged by a client to discuss a set of circumstances with the Inland Revenue, the accountant owes a public duty to the Inland Revenue, and a private duty to his client. The public duty consists in an obligation to disclose all the facts to the Inland Revenue, while the private duty consists in seeing that the client's point of view is properly displayed and emphasised. It would, in our judgment, be a calamity for the profession if the confidence which the Inland Revenue now reposes in accountants were weakened, and we do not see how the risk of weakening can be avoided if the remuneration of an accountant acting in a case varies in direct proportion to the extent to which the Inland Revenue is defeated.

From the point of view of the relations between the profession and the public, it would be equally calamitous if the idea were allowed to take root in the public mind that there are sources of information in tax matters open to some accountants but denied to others. Personal skill as between accountant and accountant must always differ, exactly as it does in every other profession, but there is no monopoly whatever of skill in penetrating the mysteries of income-tax or of knowledge of "concessions." The degree of skill which can be applied to a case is known and can be measured between the accountant and his client long before the results of the engagement are known, and the proper view is that the remuneration is paid as the reward of the skill and not as the result of the fortuitous consequences of the application of the skill.

We add that we can well imagine that particular clients may express a preference for making a payment based on the results obtained. If a client should voluntarily make such a choice, we suppose there is nothing to prevent him; but even in that case we feel that so strong a point of professional interest is involved that the amount ultimately accepted by the accountant ought to be limited to a generous rate on the time he actually spends on the case. That is to say, the client cannot be prevented from expressing the satisfaction he

derives from the results of the accountant's activities, and may voluntarily increase the normal fee by way of an addition to the basic rate on which the computation of the total is made; thus, as our correspondent expresses it, he recognises services by a voluntary addition to adequate professional charges based on time occupied. But this is very different from the making of a charge by the accountant against the client, the amount of which may be out of all proportion to the real professional service rendered.

LETTER

SIR,—The case reported in your *Tax Supplement* of the 8th inst., and also in the Press, raises an important question of principle. Is it in accord with the practice of a profession that remuneration for work to be done should be fixed in advance at a percentage of the money benefit to be received by the client, (or which it is estimated would have been received had the client not made a settlement without the accountants' concurrence), and that, if no benefit accrues, no fee should be charged?

Sir John Simon, when addressing the

Chartered Accountant Students' Society of London in 1920, suggested three tests by which the great acknowledged professions of our time might fairly be judged and the most important of these tests he described in the following words:—

"A profession is a pursuit which is followed not solely as a livelihood but always subject to overriding duties, prescribed by a code of professional honour involving in an especial degree the strict observance of confidences, in which the work that we do must be rendered to our clients, without stint, in proportion to our clients' need rather than in proportion to the reward which we receive."

It is probably true to say that no form of service is more satisfying to a client than that which results in recovery of large sums by way of refund of taxation, although other forms of service equally advantageous are no less important.

Whilst we are all glad to receive generous fees for exceptional services demanding special skill, should it not be left to the client to recognise those services by a voluntary addition to adequate professional charges based on time occupied.

Some Income Tax Decisions of the Supreme Court

by HARRY L. KUNZE, C.P.A., Milwaukee, Wisconsin

RADIO TALK OVER WTMJ

The Constitution of the United States provides that all direct taxes levied by Congress shall be apportioned among the several states according to their respective populations as determined by a census or enumeration.¹ It seems that those who adopted the Constitution were afraid that the property in one State might be unduly taxed by a law made by other states, and this provision was intended "to prevent an attack upon accumulated property by mere force of numbers."² However, no test was given for determining what taxes were direct and what taxes were indirect. Many cases arose in which the courts gave various definitions of direct taxes. The question finally came before the Supreme

Court of the United States in 1895 in the famous case of *Pollock v. Farmers' Loan and Trust Company*, where the court had to decide whether or not a tax upon the income of real estate was the same kind of tax as that on the real estate itself. The point arose because of the income tax law which Congress had passed under the Act of 1894. Five of the nine members of the court held that a tax on the rents or income of real property was a direct tax, and stated in support that:

"—it is admitted that a tax on real estate is a direct tax. Unless, therefore, a tax upon rents or income issuing out of lands is intrinsically so different from a tax on the land itself that it belongs

to a wholly different class of taxes, such taxes must be regarded as falling within the same category as a tax on real estate *eo nomine*. The name of the tax is unimportant. The real question is, is there any basis upon which to rest the contention that real estate belongs to one of the two great classes of taxes, and the rent or income which is the incident of its ownership belongs to the other? We are unable to perceive any ground for the alleged distinction. An annual tax upon the annual value or annual user of real estate appears to us the same in substance as an annual tax on the real estate, which would be paid out of the rent or income."³

Upon a rehearing of the case they adhered to the above opinion but went further in holding that a tax on the income of personal property was also a direct tax. As a result of this decision the income tax law in question was declared invalid. The case has been and still is widely quoted in tax decisions.

In 1909 Congress imposed a tax upon corporations on the doing of business in a corporate capacity, which tax was measured by the net income of the corporations. In *Flint v. Stone Tracy Co.*, this tax was held valid as not a direct tax but as an excise which could be measured by profits notwithstanding a part of such profits came from municipal and other non-taxable property. The Court said:

"—the measure of taxation being the income of the corporation from all sources, as that is but the measure of a privilege tax within the lawful authority of Congress to impose, it is no valid objection that this measure includes, in part at least, property which as such could not be directly taxed."⁴

It should be noted that the tax was not considered objectionable even though it was measured by income part of which was non-taxable. The Court found that there was a substantial difference between a legitimate subject of taxation and the measure of the tax, and in this way was able to hold the tax good and to distinguish it from the tax in the *Pollock* case. The average citizen is not apt to see much difference between a tax on income and a tax on something else measured by income,

and even the members of the Supreme Court on various occasions since the *Flint* case have had considerable trouble in distinguishing between the two.

While corporations were thus taxable it was found desirable to have a general Federal income tax law that would reach all income without regard to apportionment among the states. To enable Congress to pass such a law the Sixteenth Amendment to the Constitution was ratified by the required number of states and became effective as part of the Constitution, February 13, 1913. This Amendment reads as follows:

"The Congress shall have power to lay and collect taxes on income, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration."

Shortly thereafter, on October 3, 1913, a statute was enacted providing for a general income tax beginning with the date March 1, 1913—i. e., there was a limited retroactivity with respect to the first period. While this statute has been changed several times it is the basis of our present Federal income tax law.

According to the wording of the Sixteenth Amendment, Congress was given power to tax all incomes from whatever source derived. Not until 1920 was it decided whether or not this made the compensation of Federal judges taxable. There is an express provision elsewhere in the Constitution (Article 3, section 1) that their compensation shall not be diminished during their continuance in office. The question came up in *Evans v. Gore* where the Court in the course of the opinion said:

"—we think, that the primary purpose of the prohibition against diminution was not to benefit the judges, but, like the clause in respect of tenure, to attract good and competent men to the bench and to promote that independence of action and judgment which is essential to the maintenance of the guaranties, limitations, and pervading principles of the Constitution and to the administration of justice without respect to persons and with equal concern for the poor and the rich."⁵

It was then decided that the amendment did not extend the taxing power of Congress to new subjects or make taxable that which was not taxable before, that it in no way affected the power to tax but only the mode of exercising it. Justice Holmes wrote a dissenting opinion, concurred in by Justice Brandeis, which seems to be well reasoned. He stated:

"The exemption of salaries from diminution is intended to secure the independence of the judges, on the ground, as it was put by Hamilton in the *Federalist*, (No. 79) that 'a power over a man's subsistence amounts to a power over his will.' That is a very good reason for preventing attempts to deal with a judge's salary as such, but seems to me no reason for exonerating him from the ordinary duties of a citizen, which he shares with all others. To require a man to pay the taxes that all other men have to pay cannot possibly be made an instrument to attack his independence as a judge."⁶

A different type of exemption was involved in the case of *Long v. Rockwood* decided in 1928. The question there presented was whether the State of Massachusetts could tax the income received from patents. In a close decision, five to four, the income was held non-taxable on the ground that the patents were Federal instrumentalities and as such, according to the settled doctrine, could not be taxed by the states. Justice Holmes again wrote the dissenting opinion a part of which may well be quoted as it was later accepted by all the members of the court in a similar case. He argued that patents were used by their holders for their private advantage and that they should not be exempt from taxation because they came from a grant of the Federal Government any more than land should be exempt which came from the same source. With respect to the right of a State to tax in such cases, he says:

"The power to tax is said to be the power to destroy. But, to repeat what I just now have had occasion to say in another case, this Court, which so often has defeated the attempt to tax in certain ways, can defeat an attempt to discriminate or otherwise to go too far

without wholly abolishing the power to tax. The power to fix rates is the power to destroy, but this Court, while it endeavors to prevent confiscation, does not prevent the fixing of rates."⁷

Long v. Rockwood was definitely overruled, without dissent, a few years later in 1932 by *Fox Film Corporation v. Doyal*. The court there held that the income derived from copyrights was subject to State taxation. These statements were made:

"The property of the United States is not subject to State taxation, but the property of individual owners, although derived from the United States under its public land laws, may be taxed. The power to tax exists as soon as the ownership is changed."

"—the mere fact that a property right is created by statute to fulfill a governmental purpose does not make it non-taxable when it is held in private ownership and exercised for private advantage."⁸

Another decision, handed down in 1931, involved the question of a tax laid upon the instrumentalities of a State. This was in *Willcuts v. Bunn*, the facts of which were: briefly, that Bunn purchased bonds issued by various counties and cities in the State of Minnesota which he later sold at a profit. He paid a tax on this profit, under protest, claiming that it was illegal since assessed upon the income from municipal bonds. It had been previously well settled that State agencies and instrumentalities of a strictly governmental character are exempt from national taxation. This exemption rests upon our dual system of government. The states were not permitted to tax Federal securities on the theory that they might impair the borrowing power or credit of the National Government. The rule developed that State bonds were in like manner free from taxation by the United States. The Court in the *Willcuts v. Bunn* case recognized this doctrine but held that this did not prevent Congress from taxing the profits derived from the sale of such bonds. It maintained that:

"The sale of the bonds by their owners, after they have been issued by the State or municipality, is a transaction distinct from the contracts made by

the Government in the bonds themselves, and the profits on such sales are in a different category of income from that of the interest payable on the bonds. — The tax upon interest is levied upon the return which comes to the owner of the security according to the provisions of the obligation and without any further transaction on his part. The tax falls upon the owner by virtue of the mere fact of ownership, regardless of use or disposition of the security. The tax upon profits made upon purchases and sales is an excise upon the result of the combination of several factors including capital investment and quite generally, some measure of sagacity; the gain may be regarded as 'the creation of capital, industry and skill'.⁹

Profits from the sale of municipal bonds were thus distinguished from interest received on such bonds, and the court then found that it was not shown that a Federal tax on the former would amount to any appreciable burden or substantial interference with the borrowing power or other functions of State governments.

Interesting and far reaching in its effect was the "Stock Dividend" case of *Eisner v. Macomber*. The Standard Oil Company of California had on a certain date outstanding capital stock of \$50,000,000 and had in addition surplus and undivided profits amounting to about \$45,000,000. The board of directors decided to declare a stock dividend of 50%; i. e., to readjust the capitalization by issuing additional shares of stock in an amount equal to one-half of the then outstanding stock. One of the holders of the stock paid a tax of \$19,877 under protest and then brought an action to recover the tax on the ground that the stock dividend was not income within the meaning of the Sixteenth Amendment. This contention was upheld by the Supreme Court though four Justices dissented. The majority opinion approved of the definition that "Income may be defined as the gain derived from capital, from labor, or from both combined," and added:

"Brief as it is, it indicates the characteristic and distinguishing attribute of

income essential for a correct solution of the present controversy. The Government, although basing its argument upon the definition as quoted, placed chief emphasis upon the word 'gain,' which was extended to include a variety of meanings; while the significance of the next three words was either overlooked or misconceived. 'Derived—from—capital'; —'the gain—derived—from capital,' etc. Here we have the essential matter: not a gain accruing to capital, not a growth or increment of value in the investment; but a gain, a profit, severed from the capital however invested or employed, and coming in, being 'derived,' that is, received or drawn by the recipient (the taxpayer) for his separate use, benefit and disposal; that is, income derived from property. Nothing else answers the description."¹⁰

It was next found that a stock dividend could not be brought within this definition for the reason that the recipient stockholder received nothing out of the company's assets for his separate use and benefit. In the words of the Court a stock dividend:

"—is no more than a book adjustment, in essence not a dividend but rather the opposite; no part of the assets of the company is separated from the common fund, nothing distributed except paper certificates that evidence an antecedent increase in the value of the stockholder's capital interest resulting from an accumulation of profits by the company, but profits so far absorbed in the business as to render it impracticable to separate them for withdrawal and distribution."¹¹

The Court well understood the real nature of the transaction as it further pointed out that the bookkeeping entry necessary to record the adjustment was a charge to surplus and a credit to capital stock which entry has no effect on the assets and liabilities of the corporation but that it merely increases the number of shares, with resulting dilution of the value of each old share. It answered the argument that

the dividend stock might be sold, by saying the same would be true of the original stock and that if either be sold the stockholder will lose a part of the control of the company and his proportion of future dividends. Moreover, if he cannot find a buyer of his dividend stock he may not have the wherewithal to pay a tax upon it. While in some cases the new certificates received by the stockholder might measure the extent to which he has been enriched, as was contended, the Court said such enrichment through increase in value of capital investment is not taxable income under the Sixteenth Amendment.

CITATIONS

1. Article 1, section 2, cl. 3.
Article 1, section 9, cl. 4 also requires apportionment.
It reads "no capitation or other direct tax shall be laid, unless in proportion to the census or enumeration hereinbefore directed to be taken."
2. *Pollock v. Farmers' Loan and Trust Co.* 157 U. S. 429, 583, 15 Sup. Ct. 673, 39 L. Ed. 759 (1895).
3. Note 2, *supra*, pages 580 and 581.
4. 220 U. S. 107, 165 (1911).
5. 253 U. S. 245, 253, 40 Sup. Ct. 550, 64 L. Ed. 887 (1920).
6. Note 5, *supra*, page 265.
7. 277 U. S. 142, 150, 48 Sup. Ct. 463, 72 L. Ed. 824 (1928).
8. 286 U. S. 123, 128, 129, 52 Sup. Ct. 546, 76 L. Ed. 1010 (1932).
9. 282 U. S. 216, 227, 51 Sup. Ct. 125, 75 L. Ed. 304 (1931).
10. 252 U. S. 189, 207, 40 Sup. Ct. 189, 64 L. Ed. 521 (1920).
11. Note 10, *supra*, page 210.

Accounting for Serial Bonds*

by LESLIE McREYNOLDS, C.P.A., Sacramento, California

In accounting for bonds which are held for investment any premium or discount should, of course, be amortized on the basis of compound interest. It then becomes necessary to know the book value, the par value and the accrued interest at the date of closing the books, as well as the true yield, the nominal interest, the amortization of premium and the coupons collected during the fiscal period.

Certain difficulties are encountered in designing a system of accounting which will furnish the desired information without disproportionate labor in the case of serial bonds. The fact that the bonds of each series mature at different times and consequently have different book values has often resulted in the practice of recording each bond on a separate card and calculating the amortization of each bond individually. It is possible to combine all of the bonds of one series, which are purchased at one time, on one ledger card in such a way that accounting for each series of bonds requires very little more labor than accounting for an individual bond.

The greatest difficulty arises from the fact that the bonds held in the usual investment portfolio bear coupons payable at various dates during the year and if the amortization of premium is calculated at such interest conversion dates it is necessary to make additional laborious calculations to find the necessary accruals at the time of closing the books. It is possible, however, to calculate the accrued amortization at the end of the first fiscal period after the purchase of each series of bonds and then treat all bonds as though the interest conversion dates coincided with the date of closing the books. Thus a minimum of labor will show the true income for each fiscal period as well as the book value, par value and the accrued interest at the end of each fiscal period.

The form used as a bond record should combine the features of an amortization schedule and a ledger card. A convenient form is shown in the following illustration. Let us assume that five bonds of \$1,000 each, maturing serially on April 1, 1941-1942-1943-1944-1945 and bearing coupons for 5% payable on April 1st and October 1st, have been purchased on June 1, 1935 at a price to yield 4% compounded semi-annually. The book value of the bonds on the date of purchase is found by interpolating between the sum of the values of all five bonds on April 1, 1935 and the sum

*The writer, an accountant for the State of California, prepared this article based on the recent installment of an accounting system for serial bonds to care for the teachers' retirement system of that State.

of the values on October 1, 1935 as found from a book of bond values. To this book value of \$5,331.93 must be added the accrued interest on the coupons, or \$41.67, to find the total price paid for the bonds. This book value and accrued interest, together with the par value of \$5,000, are entered on the ledger card with the date of purchase. A journal entry, of course, is necessary to carry these figures into the controlling accounts in the general ledger.

Assuming that the general ledger is closed on December 31st of each year, it will be necessary to calculate as of June 30th and December 31st of each year, the

amortization of all bonds bearing semi-annual coupons.

To find the yield for June 30, 1935, the book value for the previous date is multiplied by the semi-annual yield, which in this case is .02 and, since only one-sixth of a semi-annual period has elapsed, one-sixth of the resulting yield, or \$17.77, is entered under the column headed "Yield" on the line dated 6/30/35. Similarly, the par value is multiplied by the semi-annual coupon rate, which is .025, and one-sixth of the result, or \$20.83, is entered under the heading of "Nominal Interest." The difference between the nominal interest and the yield is the amortization which is

BOND LEDGER

Description—Modesto Municipal Improvement

Purchased From—

Interest dates—April 1 and October 1

Date of Issue—April 1, 1935

Date	Yield 4%	Nominal Interest 5%	Amorti- zation	Book Value		Par Value Balance	Coupons Paid	Accrued Interest Balance
				Sold or Redeemed	Balance			
6/ 1/35					5,331.93	5,000.00		41.67
6/30/35	17.77	20.83	3.06		5,328.87	5,000.00		62.50
10/ 1/35							125.00	
12/31/35	106.58	125.00	18.42		5,310.45	5,000.00		62.50
4/ 1/36							125.00	
6/30/36	106.21	125.00	18.79		5,291.66	5,000.00		62.50
10/ 1/36							125.00	
12/31/36	105.83	125.00	19.17		5,272.49	5,000.00		62.50
4/ 1/37							125.00	
6/ 1/37	87.87	104.16	16.29	1,035.21	4,220.99	4,000.00	8.33	
6/30/37	14.07	16.67	2.60		4,218.39	4,000.00		50.00

MATURITY RECORD

No.	Date	Par Value	No.	Date	Par Value	No.	Date	Par Value	No.	Date	Par Value
1	4/1/41	1,000.—									
2	4/1/42	1,000.—									
3	4/1/43	1,000.—									
4	4/1/44	1,000.—									
5	4/1/45	1,000.—									

(Front)

subtracted from the previous book value to find the current book value on June 30, 1935. The nominal interest is added to the previous accrued interest balance to arrive at the accrued interest balance on June 30, 1935. The amounts entered under "Yield," "Nominal Interest," "Amortization" and "Coupons Paid" are the basis, of course, for the entries to the general ledger.

At the time of collecting coupons, the amount collected is recorded under "Coupons Paid" and corresponding entries are made in the general ledger. At the end of each semi-annual period the balance under accrued interest is found by adding to the previous balance the current entry under "Nominal Interest" and deducting the amount recorded during the current

period under "Coupons Paid."

The foregoing process is repeated on December 31st and June 30th until a bond is sold or matured. In the case of a sale the yield and coupon rate are entered in proportion to the amount of the semi-annual period which has elapsed to the date of the sale. The book value of the bond sold is found by interpolation from a table of bond values and the amortization for the fractional period and the book value of the bond sold are both deducted from the previous book value to arrive at the current book value for the remaining bonds at the date of sale. These balances are brought forward at the end of the semi-annual period by entering the fractional yield and nominal interest.

On the reverse side of the form de-

BOND LEDGER
Description—Modesto Municipal Improvement.

Date	Yield 4%	Nominal Interest 5%	Amorti- zation	Book Value		Par Value Balance	Coupons Paid	Accrued Interest Balance
				Sold or Redeemed	Balance			
12/31/43	40.48	50.00	9.52		2,014.25	2,000.00		25.00
4/ 1/44	20.14	25.00	4.86	1,000.00	1,009.39	1,000.00	50.00	
6/30/44	10.09	12.50	2.41		1,006.98	1,000.00		12.50
10/ 1/44							25.00	
12/31/44	20.14	25.00	4.86		1,002.12	1,000.00		12.50
4/ 1/45	10.38	12.50	2.12	1,000.00			25.00	

RECORD OF SALES

Date	Sold to	Book Value	Sold For	Profit or Loss	Remarks
6/1/37		1,035.21	1,040.00	4.79	

scribed, in the place of the "Maturity Record" there is a "Record of Sales" as is shown in the following illustration. Here are entered the date, name of purchaser, book value and selling price of the bond sold. The difference between the book value and the selling price of the bond represents the profit or loss on the transaction. From the total amount received for the bond should be deducted the accrued nominal interest, of course, in arriving at the selling price used in the calculation of profit or loss.

When the period is reached in which a bond matures the values are similarly brought forward to the date on which the bond matures and the resultant amortization as well as the par value of the maturing bond are subtracted from the previous book value to arrive at the book value of the remaining bonds.

In the final period of the schedule, the amortization should be entered at exactly the amount required to write down the remaining book value to par and the yield should be calculated by subtracting the amortization from the nominal interest. This operation is necessary because of slight inaccuracies, amounting in most cases to not more than a few cents, which accumulate in the schedule so that the premium will not be exactly amortized in the final period by following the method of calculation used in previous periods.

This method of accounting for bonds can be used with equal facility by either the issuer of bonds or the investor. In the case of bonds sold or purchased at a discount, the book value will be less than par and the accumulation of discount will be found by subtracting the nominal interest from the yield and will be added to the previous book value to find the ensuing book value.

The accumulated error mentioned will seldom be sufficient to warrant an effort to provide a greater refinement in accuracy but if necessary, perfect accuracy may be obtained. One source of inaccuracy is the commercial method used in calculating the value of a bond between interest dates. The value of a bond does not decrease at a constant rate but with increasing rapidity as the date of maturity approaches. In the example illustrated, the

total value of all five bonds on April 1, 1935 was \$5,338.014 and to find the exact value on June 1, 1935 this value must be multiplied by 1 plus the semi-annual yield, or 1.02, raised to the power corresponding to the fraction of the semi-annual period elapsed, or in this case $1.02^{\frac{1}{6}}$. From the result is subtracted the coupon interest accrued on the same date and the value of \$5,331.70 is obtained. It will be noticed that this value differs from the approximate value found by interpolation by only 23c.

It is necessary to use $1.02^{\frac{1}{6}}$ in this case in order to avoid the compounding of interest between coupon conversion dates. For instance, if we had used 1.02 as a factor for the period April 1st to June 1st instead of $1.02^{\frac{1}{6}}$ and then repeated the calculation for the remainder of the period to October 1st we should be compounding the interest on June 1st as well as on October 1st and the effective rate for the semi-annual period would be 1.01^2 or 1.0201 instead of exactly 1.02. If we use $1.02^{\frac{1}{6}}$ for the first third of the period and $1.02^{\frac{2}{6}}$ for the last two-thirds of the period the effective rate will be $1.02^{\frac{1}{6}} \times 1.02^{\frac{2}{6}}$ or exactly 1.02 which is the correct effective rate for the semi-annual period. From this it is also apparent that we cannot find the exact book value for June 30th by using the book value of June 1st as a basis. The formula for the calculation necessary to find the book value on June 30th is $5,338.014 \times 1.02^{\frac{1}{6}} - 5000 \times .025$. Now

$$\begin{array}{r} 2 \\ \text{if we use the intermediate value on June} \\ \text{1st in attempting to find the value on} \\ \text{June 30th our formula will be} \\ (5,338.014 \times 1.02^{\frac{1}{6}} - 5000 \times .025) 1.02^{\frac{1}{6}} \\ \hline 3 \\ - 5000 \times .025 \\ \hline 6 \end{array}$$

which is not the same at all since the accrued nominal interest for two months is being compounded in the second formula.

We therefore must take the value on the previous interest date, or \$5,338.014, multiply by $1.02^{\frac{1}{6}}$ and subtract the accrued coupon, thus obtaining the value of \$5,328.630 for June 30th. Subtracting the

value on June 20th from the value on June 1st will give the amortization for the interval, or \$3.0696, and subtracting the amortization from the nominal interest for the period will give the true yield, or \$17.7637, for the period.

For the ensuing semi-annual period from June 30, 1935 to December 31, 1935 we will find that if we multiply the value on June 30th by 1.02 and subtract the accrued nominal interest we will obtain the result of \$5,310.2025 which differs slightly from the exact value of \$5,310.2074 found by multiplying the value on

the interest date, October 1st, which is \$5,319.773, by 1.02½ and subtracting the accrued nominal interest for the period from October 1st to December 31st. The reason for this discrepancy is that the exact figures can only be obtained by compounding the bond values on the date when the interest is payable.

In practice these theoretical refinements can ordinarily be disregarded as the simpler method of calculation first outlined will provide sufficient accuracy with a minimum of effort.

The Accountant's Responsibility*

By GEORGE PRICE ELLIS, C.P.A., Chicago, Ill.

THE Dean of Men of the University of Wisconsin describing what the university graduate of the future must be, in order to find employment, emphasized breadth of training rather than close specialization. Versatility on a foundation sound training, in other words, is, in his opinion, the key to the business future.

This advice to young men going into business is particularly pertinent to us of the accounting profession. We have gone far on the road from petty specialization toward a broader basis of service, but we still have far to go to achieve that status for the profession which must be our goal. We have been handicapped by the hybrid character of accounting—half a business for profit, half a profession in which service comes first. We have had to contend with the problems arising from rapid growth and from the artificially seasonal character of our work. We have had to struggle with technical standards of performance still in a state of becoming, not yet fixed beyond argument. Let us grant all these conditions, the fact still remains that accounting in the future must be much beyond present standards of excellence.

Modern business demands more and more of the accountant. He must be not only a super-bookkeeper, a tax expert, a budget-maker, a cost analyst, the fact-finder, all in one; he must be also the busi-

ness expert, the financial counsel, the fact-interpreter for not one but many different types of business activity. The ever increasing degree of technical training demanded of the accountant makes it the most arduous of professions. The burden would be intolerable, were there not corresponding opportunity and obligations. The accountant, harrassed as he is at some seasons, with a mountainous load of routine work, may not always be able to overlook the farther fields, and take to himself the bright prospect.

Whatever may be the political or economic future of NRA, it has immensely forwarded the professional advance of accounting. The current sifting, and testing, and redirecting of economic thought has brought accounting a new role and a vast opportunity. It is nothing less than a place of leadership in developing a better concept of social responsibility.

For such leadership, our technical training cannot be too broad or too thorough, our extra professional background too rich. We cannot afford to be mere craftsmen of the ledger; our role is that of creative analysts, uncovering the sore spots of business and helping business men to understand the danger and to meet the threat. Ours is the role of reflection—the role of thinking through the facts of our business and economic life before us. Without such

*Address at annual meeting of Florida Institute of Accountants.

thinking, the facts of business have little meaning. As a great philosopher¹ has said:

"Nothing seems so solidly established by anthropology and history as that men will not learn from what has actually happened to them unless they have developed the power of reflection. The idea that experience alone will teach anybody is a thin optimistic illusion."

The facts turned up by the New Deal plowing are particularly useful for such reflection.

One fact is that the mass of business men have not been doing much thinking upon their business experience. If they had, there would have been no economic justification for the "New Deal." A gentleman of my acquaintance who has spent a great deal of time in Washington says, "Business men do not think; they wait for a crisis to arrive and they array themselves on one side or the other according to their emotions." Much of what passes for thinking in a conference is merely a rearranging of prejudices on both sides of the question; no winning over to a reasoned and constructive realignment.

Another fact turned up is the great dearth of business data upon which to base any reasoned decision. Some of that condition is surely due to our failure as a profession to bring home to business men the essential value of what we can do for them. Both the primary facts essential for guidance and their collection and classification were almost non-existent. I, as an accountant, could hardly believe the results of some of my investigations for trade associations. I venture to say that 95% of business does not have anything like the information on which to base really intelligent action. There was some excuse for the lack of industry-wide data in the days when trade associations were hamstrung by court decisions against the collection and dissemination of trade data among the members of the trade. There is no sound reason for a business not knowing such facts of its own operation as the accountant can give. It is a weakness which char-

acterizes large and small concerns. Managerial ignorance is not peculiar to any one type or class of business. The day when trade associations could not collect statistics passed in 1925 when in two great decisions, the U. S. Supreme Court held:

"Public interest is served by the gathering and dissemination in the widest possible manner of information with respect to production and distribution, cost and prices and actual sales of market commodities because the making available of such information tends to stabilize trade and industry, to produce fair price levels, to avoid the waste which inevitably attends the unintelligent conduct of economic enterprise. Competition does not become less free merely because the conduct of commercial operations becomes more intelligent through the free distribution of all the knowledge, of all the essential factors entering into the commercial transaction."²

All honor to NRA that it began a systematic collection of the facts of business operation, and that this collecting is to go on as well as it can through trade associations without the codes. Even if the individual concern has the information in usable form, collection is only the beginning; classification and systematic analysis must follow. You, as accountants cannot avoid a share in this work; you deal every day in the raw material of facts. You contribute to their interpretation and if you are accountants worthy of the name, you know that "what we ordinarily take for fact is often full of illusion," and you will point out the airy nothingness of much that seems so solidly real.

On you falls the onus of leading business through the morass of wage and labor standards; of size, volume and distribution cost problems; and through the bottomless bog of fair pricing.

NRA was primarily a labor law. Wage and hour provisions were its core. Wages and hours were the heart of this legislation, not merely from a vague enthusiasm for reform and for recovery, nor even

¹Morris R. Cohen, *Reason and Nature* (N. Y.: Harcourt Brace & Co., 1931), P. 452.

²The Cement Association and The Maple Flooring Cases.

from a desire to win the political allegiance of the American Federation of Labor. They were central in the program because business as a whole had neglected the issue of social security for the worker until the matter had become crucial to our national existence. It was and is the duty of accountants to show the social cost of economic insecurity of labor as a factor in every business problem,—whether that insecurity arises from low wages, inefficiency, geographical distribution of industry, population shifts, rise of competing industries or changing technology. We quite commonly attribute the large unemployment of recent years to the cumulative effect of replacing hand labor with machines. That, of course, is a cause; but it is not the whole story. Mass production began 25 years ago. Population then was less than 92 million; now it is at least 125 million,—a gain of 33 million. In the same period, the farm as a means of family employment has declined; young men go from the farm to the city. Many more women have entered business. Immigration has continued despite the barriers; in 1930 the census registered 14,000,000 foreign born who had neither indicated a desire to become citizens nor been sent from the country. Whether this country should have followed the example of European nations and driven out the alien workers is not the question here. We could not, if we would, insofar as these workers were the skilled labor for which we had in this country no substitute. An apprentice training program is long overdue in this country. I want merely to point out that unemployment is not simply a technological matter, but has many ramifications. That industry has been able to absorb so large a part of this increased free manpower is important to remember in gauging labor data in any particular industry. For a further means of absorption is already being discussed; namely, the possibility of utilizing excess farm products in industry. Have you clients who will be affected by the substitution or its effect on a common market?

In the race for volume has the most economic size been studied. I recall a certain landowner in New York City with valuable property on Fifth Avenue. He

weighed all the pros and cons of putting a skyscraper upon the site. Then he built a 5-story building which yields him a far better return on his money than the most optimistic forecasts of income from the skyscraper.

Accountants know that volume is not an end in itself; that it is not something to be attained regardless of price. But do our clients know it. Have we done our part to steer them away from the fallacy of bigness? I think we have failed rather lamentably, as witness the vast ignorance everywhere in business as to the capacity factor.

The social responsibility of the accountant requires him to take the larger view to advise his client in keeping with the long-run advantage, in keeping with the general good rather than the individual good.

You may not want this responsibility; you may not be prepared for it; but you cannot escape it. The burden is yours to carry. The reasons are in part historical, in part practical. Historically, accounting made possible the era of Big Business. Without the development of accounting practice in the last century the giant corporation with a score of subsidiaries and a multitude of inactive stockholders could not have come to pass. Without accounting as a tool of management, modern business could not have taken the forms we know. Accounting which made such development possible must take some responsibility for the creature it has made. Accounting cannot escape its share in creating the Holding Company by which an investment of one million dollars can control property valued at billions; nor escape its contribution to the problems of absentee ownership, the divorce of management and ownership, the breakdown of integrity in both functions.

Practically, accounting must bear this social responsibility because of its traditional function as the historian of business. The accountant having perfected a technique for recording past financial facts and hence knowing more than anyone else about their implications, has an obligation to use them in forward-looking analysis. Do not mistake me. The accountant has no claim to usurp the managerial function of decision; his job is to gather the facts,

select from them the relevant and the crucial, point out relationships, and so aid the managerial decision.

In one sense this requirement of scientific analysis is not new. In another sense it is new. Accounting analysis, which would truly help business today, must be so much more intense, so much broader, so much more comprehensive, that the difference in degree over the past amounts to a difference in kind. We have to prepare not only for *more* analysis, but for what is really an altogether different kind of analysis. We shall have to take thought upon not only the financial data of the particular concern in hand, but also the comparative data of the whole industry and of business in general. We shall have to take thought upon not only the production and distribution costs of one concern but also of the economics of production and distribution in general. Cost accounting for production is fairly well developed, but the cost accounting of distribution is a scarcely opened book. From now on, it is apparent, every business must count that text and learn not alone what mass production costs to produce but also what it costs to market. Those costs of marketing include much more than volume differentials and total sales cost; they reach into the question of ultimate saving to the con-

sumer. Sooner or later we shall come generally to the view that the inefficient business has no right to continue. The test of efficiency will continue to rest on accounting data, and accounting interpretation.

Standing in such a relationship to business, the accountant must constantly make a moral choice. In a clash of interest, he cannot let loyalty to a client stand before the larger loyalty to society. He must not let the desire to get on make him one with the crowd, afraid to be independent in thought or forthright in opinion. The great American inspiration to "get on" has a very demoralizing effect upon individual integrity; for the way to get on is to be "safe," to be "sound," to be agreeable, to be inoffensive, to have no views on important matters not sanctioned by the majority, by your superiors, or by your group.

Accountants are no different than other men in their dislike of standing alone. Professional rules, pressure of work, keen competition all exert compulsion upon us to be one like another. Yet the accountant who truly fulfills his professional and social obligation *must* think for himself, must be outspoken in honest opinion, must be learned in the ways of business life outside the narrow limits of actual accounting.

Regulation of County and City Audits in Idaho

by TRUMAN JOINER, C.P.A., Boise, Idaho

THE need of reform in the auditing practices followed in county and municipal engagements has long been recognized. Many taxing units do not follow a consistent plan of having periodic audits—indeed many never have an audit at all. Nor is that the only abuse. The performance of limited engagements for the audit of only specified funds, or, still worse, the preparation of audit reports largely from the report of the county auditor or city clerk, are only two of the practices frequently followed in some sections. To get away from these abuses several steps have been taken at various times, including the

adoption of uniform specifications for audits by State Societies and other organizations. Various forms of State regulation have been adopted, also, with varying success. In the 1935 session of the Idaho Legislature two laws were passed purporting to regulate the conduct of city and county audits. Since the writer is only familiar with the conditions in that State, this discussion will be limited to a consideration of the situation there. While peculiar conditions undoubtedly exist in Idaho, it is assumed that much the same problems are found in most states.

The first objective in regulation, of

course, is to see that the governmental units do have periodic audits. The tendency has been definitely in that direction for several years, and little opposition is voiced on that score. Public opinion is beginning to demand a more business-like handling of public affairs, and the attendant swing toward independent audits is natural.

The recently enacted Idaho law is also aimed at abuses in the performance of audit engagements, particularly the practice of making perfunctory or half-audits. The dangers inherent in partial audits of taxing units are self-evident and need not be mentioned, but the problem of eliminating them is not so easily disposed of. Non-regulatory C.P.A. laws do not necessarily mean competent auditors when non-certified men are in practice. That does not mean that all non-certified men are incompetent, however. Even many certified public accountants are inclined to accept limited engagements where only a complete audit should be countenanced; and the blame cannot always be placed upon the individual accountant, but rather upon the board employing him, or else attributed directly to the prevalent evil of competitive bidding. Under these circumstances, apparently the only approach to the problem was the requirement that audits be made in accordance with prescribed uniform specifications with provision for review by competent authority. Such a plan, it was felt, would work much more effectively than the plan of some states to have such audits made by a State department.

THE IDAHO LAW

The move was begun in Idaho in 1933 when a committee of the Idaho Society of Certified Public Accountants began drafting uniform specifications for audits of municipalities, counties and school districts, the last of which was adopted by the Society in May, 1934. More recently the initiative was taken by certain State and county officials for the purpose of improving the standards of county audits and assuring uniformity of reports as between counties. Representatives of the Idaho Society were consulted and the final draft of the law met with the approval of the Society. The text of the law governing county audits is as follows:

"Section 1. The State Bureau of Public Accounts shall regulate and control audits of county records of all counties as hereinafter set forth.

"Section 2. It shall be the duty of the State Bureau of Public Accounts to prescribe uniform specifications for audits of books and records of all offices of all counties of the State of Idaho, also to prescribe the form of contract required to be used by the Board of County Commissioners in contracting for such audit.

"Section 3. The Board of County Commissioners of all counties of the State shall be required to have a complete audit made of all books and records of the several offices of the county at least once in two years beginning with the period January 14, 1935. Such audit to conform to the uniform specifications as prescribed by the State Bureau of Public Accounts. Such Board of County Commissioners shall require the contracting auditor who shall be employed by the Board of County Commissioners to enter into a uniform contract upon forms provided by the State Bureau of Public Accounts, which form of contract shall read substantially as follows:

FORM OF CONTRACT

To the Board of County Commissioners of
County, Idaho.

I propose to audit the books of
..... County for the period from
..... to
on the following terms:

The audit of
County shall be performed in accordance with the Uniform Specifications for Audit of all Counties, as adopted by the Bureau of Public Accounts as of and subsequent amendments, and audit shall be completed within days after close of County fiscal year period.

My fees, subject to the existing statutes of Idaho pertaining to County audits, will be payable upon approval of the reports, at the rates of

The names and qualifications of supervisor and senior accountants who may be employed on the contract accompanying this proposal are:

..... to
on the following terms:

The audit of shall be performed in accordance with the Uniform Specifications for Audit of all incorporated cities and villages, as adopted by the Bureau of Public Accounts as ofand subsequent amendments, and audit shall be completed within days after close of the fiscal year period.

My fees, subject to the existing statutes of Idaho pertaining to incorporated city and/or village audits, will be payable upon approval by the Council or Board of Trustees of the reports, at the rate of

The names and qualifications of supervisor and senior accountants who may be employed on the contract accompanying this proposal are:

Name	Qualifications
Accepted	19....
Council or Board of Trustees	
of, Idaho	
.....	
Chairman	
.....	
Clerk	

"(Following the execution of this contract, one copy must be forwarded to the Bureau of Public Accounts, Capitol Building, Boise, Idaho.)

"One copy of such contract shall be filed with the State Bureau of Public Accounts within ten days after such contract has been executed by the contracting auditor and said Council or Board of Trustees.

"The Council or Board of Trustees shall be required to include in its annual budget all necessary expense for carrying out the provisions of this Act.

"The Council or Board of Trustees is hereby required to file one copy of such completed audit report with the State Bureau of Public Accounts within ten days after its delivery by the Contracting auditor."

AUDIT SPECIFICATIONS

Following the enactment of these laws, the Bureau of Public Accounts drafted

uniform specifications thereunder which are patterned after and follow almost verbatim the uniform specifications for audits previously adopted by the Idaho Society. The Society's specifications for municipal audits follow closely in outline the suggestions later adopted by the National Committee on Municipal Accounting, and sets forth an adequate measure of what should be accepted practice; while the Society's specifications for county audits do the same for counties.

With proper supervision on the part of the Bureau and reasonable cooperation on the part of accountants and county and city officials, the arrangement should have very real advantages. The practice of making partial audits and cursory examinations should be brought to a minimum, and State officials will have comparable figures available for statistical and financial purposes. Not the least of the advantages is that it will insure the making of audits where they have been neglected before; and it will also have a tendency to eliminate the incompetent auditor.

It is true that there are disadvantages and inherent weaknesses in the plan. It gives the Bureau of Public Accounts wide latitude in deciding what is a proper audit; and the effectiveness of the act and the fairness in its administration must necessarily depend upon the qualifications and attitude of the director of the Bureau and his assistants.

One danger arising while the plan was being considered was successfully avoided by the State Society. This was a proposal that the Bureau of Public Accounts should issue a card to all deemed qualified to perform county audits, and that only such persons would be allowed to perform county audits. Aside from the difficulties facing the Bureau in deciding upon qualifications, the probable use of such cards on the part of non-certified men to secure commercial engagements would almost nullify the C.P.A. law as far as the general public is concerned. As the law was finally worded, however, the Bureau is left to judge the adequacy of the audit only from the auditor's report.

The extent of the difficulty which the Bureau may encounter in trying to determine whether the specifications have

actually been followed remains to be seen. A report could conceivably be made containing all of the required exhibits and schedules when the auditor had not actually made the proper verifications as outlined in the specifications. Since under the specifications the auditor must certify that he has performed the audit in accordance therewith, such may be improbable, at least; but it is entirely possible. To some certified public accountants such a reference to the lack of professional re-

sponsibility on the part of some practitioners is odious, but the abuses current in municipal auditing would lead us to recognize the facts.

This law is considered a decided step forward by the members of the Idaho Society and by a majority of county, city and State officials. Just how well it works out will depend largely upon the personnel of the Bureau of Public Accounts and the cooperation of the accountants themselves.

Accumulation of Income by Non-profit Corporations

by H. ARNOLD STRANGMAN, Los Angeles, California

In California, "non-profit corporations for eleemosynary and charitable purposes" are not allowed to accumulate income for a period longer than five years without the specific approval of the attorney general. The wording of that portion of the section in the Civil Code containing this provision is not very explicit, and some interesting problems are presented. For instance, is it intended, in effect, to set a limit of five years from the date of incorporation to the date of actual commencement of operations? It will readily be seen that a corporation might be organized for charitable purposes, and in the absence of regulations to the contrary, accumulate its income indefinitely without fulfilling the purposes for which it was organized. Apparently this interpretation is not intended, as it has been established that the five-year period begins when actual operations commence. Then again, is it intended that "accumulated income" shall be computed by determining only the excess of regular income over regular expenses of operation? Or shall extraneous items such as profits on the sale of capital assets be included in "Income" and losses on the sale of capital assets be included in "Expenses"? Is Depreciation to be included as an "Expense" item? Many institutions organized as charitable corporations charge purchases of equipment, furniture, etc., to "Expense" instead of capitalizing these items. Is this procedure in order?

It is logical to assume that the provision was included in the Civil Code for the purpose of ensuring that all income of corporations in this classification will be utilized only in the furtherance of the charitable purposes for which they are organized. Without the provision, there would be considerable danger of some corporations curtailing activities and accumulating income for improper purposes. Inasmuch as permission to accumulate income must be obtained from the attorney general, it is improbable that any attempt would be made to accumulate income for other than legitimate purposes; and honesty, efficiency and economy in management and operation is probably induced for the reason that statements of income and expense must support the request for permission to accumulate income.

The "accumulated income" of the non-profit corporation would appear to be the equivalent of "surplus" of the commercial corporation. The question of distribution of any surplus or accumulated income to shareholders or members does not have to be considered in the case of the former. Section 101 of the Revenue Act of 1934, Title I, Income Tax, in exempting the non-profit corporation from income tax, provides that "no part of the net earnings of which inures to the benefit of any private shareholder or individual."

In the case of a commercial corporation, profits realized on the sale of Capital As-

sets, and losses sustained on the sale of Capital Assets would be credited and charged to "Surplus," respectively. It would, therefore, appear to be consistent, for the non-profit corporation to include profits on sale of capital assets in "Income," and losses on the sale of Capital Assets in "Expenses," in the computation of "Accumulated Income." Depreciation on Buildings merits a place among the expense items, provided the rate be a reasonable one. The temptation to exclude depreciation on buildings would probably be very strong in the event that it was particularly desired to accumulate income for some worthy and legitimate purpose. The temptation would be all the stronger if it should so happen that the original buildings had been donated to the corporation. However, the fact that the buildings will eventually become untenable and will have to be replaced is an argument of sufficient force to warrant the inclusion of depreciation on buildings as an expense item. Any claim that as the original buildings were donated, and the possibility that when new buildings are needed, they also will be donated, is far too uncertain, and conservatism would dictate that proper provision be made for the new buildings when required.

The practice of charging purchases of equipment, furniture, etc., to "Expense" in lieu of capitalizing such items is apparently a more or less recognized procedure of this type of corporation. On the basis of "custom of the trade," it would not appear that there should be any objection to this procedure; although, of course, from the strictly accounting point of view it would not be permissible.

There is also the question as to whether the "Cash" or "Accrual" basis shall be used in the computation of "accumulated income." It has been said that some institutions maintain their accounting records on a strictly cash basis, even to the extent of regarding as Income all receipts no matter what the nature, and looking upon all expenditures as Expenses. One hears of cases of cash received in payment of a Note Receivable being looked upon as "Income"; and the purchase of bonds being looked upon as an "Expense." It is not difficult to imagine the trouble that such

an organization would experience in endeavoring to compute its "accumulated income." No doubt, after some futile attempts, the nearest public accountant would be summoned to straighten things out. The respective merits of the Cash and Accrual basis do not appear to be of great importance in this connection. Provided the proper segregation is made as to Income and Capital Receipts; Expenses and Capital Expenditures, the cash basis might possibly be the better for the reason that if the Accrual basis were used, it would be necessary, at the end of the operating period, to set up Accrued Interest on Bonds, Notes, etc., and to include same in the "Income"; and in these days of defaults it might be considerably safer to await the actual receipt of interest before regarding it as "Income."

The following statement of income and expenses of a school, organized as a charitable corporation, is presented for the purpose of showing the items comprising "Income" and "Expenses" in the computation of "Accumulated Income":

INCOME:

Bond Interest	\$55,000
Note Interest	15,000
Bank Interest	2,000
Dividends	15,000
Profit on sale of bonds	13,000

Total Income...	\$100,000
-----------------	-----------

EXPENSES:

Subsistence	\$12,000
Medical and Dental..	3,000
Education	15,000
Household	5,000
Recreation	3,000
Administration and General	15,000
Furniture and Equipment purchases ...	2,000
Loss on sale of Real Estate	5,000
Depreciation on Buildings:	
2% on \$100,000.....	10,000

Total Expenses	70,000
----------------	--------

Accumulated Income	\$ 30,000
--------------------------	-----------

(Continued on page 429)

Expenditure Incurred In Earning Income*

A LOGICAL FAILURE OF THE COURTS

By S. J.

When the Courts of England venture into the debatable lands of advanced logic the results are often peculiar in the extreme; though (as a result of the happy circumstance that most English Judges have enjoyed the benefits of *literal humaniores*) the judgments are frequently couched in splendid, sonorous prose, the reasoning is occasionally more deliberate than accurate. It is a peculiar feature of the British law that, though it aspires to logic, it returns frequently, and with relief, to common sense. For, though the average man often uses the terms as synonymous, logic is generally far removed from commonsense. In British law the latter usually prevails, a dispensation for which we may be profoundly glad when we consider the case of *Golden Horse Shoe (New) Ltd. v. Thurgood* (1934) I.K.B., 548.

For in this case, so recently decided, though the proximate matter under discussion was one of especial interest to accountants, viz., what is fixed, and what circulating, capital for purposes of income tax assessment, the real question which troubled the Court was no other than the very old one: which came first—the chicken or the egg?

Briefly, the facts were as follows: The Golden Horseshoe Estates Co., Ltd., was formed in 1899 and for 25 years worked gold-mines in Western Australia, raising some five million tons of ore. The "tailings" remaining after the extraction of the ore were deposited, partly on the company's own lands, and partly on lands leased for the purpose. In 1929 this company assigned its undertakings, property and rights to Lake View & Star, Ltd., reserving, however, from assignment all the tailings dumps and the right to work these for ten years, after which they were to revert (or what was left of them) to

Lake View & Star, Ltd. The right to sell all or part of the dumps was also reserved.

With the prevailing high price of gold and the new processes available as incentives, a new company was formed, The Golden Horse Shoe (New) Co., Ltd., for the purchase and treatment of the tailings. In the accounts of the new company (which were not questioned during the proceedings) the price at which the dumps were bought was shown at £122,750 and the plant for their treatment at £12,129. The Commissioners of Income Tax for the City of London assessed the company for the year ended April 5, 1930, in the sum of £5,256, less wear and tear £530. The company objected, the Commissioners stated a case to Finlay J., who found (though with some doubt) in their favour, and the company appealed. The appeal was heard before Lord Hanworth, M.R., Romer L.J. and Slesser L.J.

The Commissioners claimed that the tailings acquired were part of the undertaking and that any sum paid therefor was capital expenditure, that the tailings were a wasting capital asset and that no portion of their cost could be deducted from the profits made by the sale of gold recovered. The company contended that it was not mining for gold, but merely treating dumps to recover it, that the dumps were raw material of trade and should be regarded as stock in trade, so that the cost of so much of them as was consumed in treatment ought to be deducted in the computation. In short, that this was "money wholly and exclusively laid out or expended for the purposes of the trade" (Rule 3 (a), Cases I. and II. of Schedule D., Income Tax Act, 1918). Here, then, was the problem for the Court.

It was at once apparent that few general principles applicable in these circumstances could be derived from decided cases. Referring to the decided authorities in his judgment, Lord Hanworth M.R.

*From The Chartered Accountant in Australia, for Feb. 20, 1935.

said that they were "interesting as illustrating the divergence of legal opinion that arises upon the problem in the present case and the difficulty of finding any exact test by which to solve it." Beyond that they were not of great assistance, for they varied considerably and the Courts which delivered them were careful to confine each to the particular circumstances under review.

Some of these may be given briefly. In *Coltness Iron Co. v. Black* (6 App. Cas. 315) it was held that a tenant of minerals was not entitled to deduct from gross profits a sum representing the capital expended in making bores and sinking shafts which had been exhausted by the year's working. In *Alianza Co. v. Bell* ((1904) 2 K.B. 666; (1905) 1 K.B. 184), in which Mannell J. laid down the nearest approach to a set of definite principles to be found in any of the decisions, it was held that the "caliche" in Chili from which nitrates and iodine are extracted, and which is measurable in quantum and duration from the outset, is a wasting capital asset and its price cannot be deducted. In *John Smith & Son v. Moore* ((1921) 2 A.C. 13) a firm selling coal acquired forward contracts for coal. It was held that the outlay on these was not purchase of stock but fixed capital paid out to acquire a source from which contracts might be filled, in the course of business. In *Lawford & Co.'s Case* ((1928) 14 Tax. Cas. 229) a payment of a guarantee given in the course, and for the purpose, of the business was held to be a permissible deduction, while in the *Anglo-Persian Oil Co. v. Dale* ((1931) 16 Tax. Cas. 253) money paid to cancel an agreement of agency was held to be a proper deduction.

Various tests were tried: Lord Cave in *British Insulated & Helsby Cables, Ltd. v. Atherton* ((1926) A.C. 205) attempted to apply the principle of "a payment once and for all" but found it did not always apply, while the authorities were against it. The most curious result, however, was obtained in the present case, when Romer L.J. attempted to apply a distinction between fixed and circulating capital.

His Lordship set out to reduce the question to first principles, always a dangerous proceeding, since it involves

questions of logic. He asked, are the dumps fixed or circulating capital? If the former, no deduction can be made, if the latter, their cost may be debited to the profit and loss account. He then said, "The reason for this distinction between fixed and circulating capital is not far to seek. . . . The Revenue authorities are only concerned with annual gains and profits. . . . They are not concerned with [a trader's] financial position as a whole at the end of the year, as compared with the beginning. . . . On the other hand, a comparison [must be made] of the circulating capital . . . at the beginning of the year with the circulating capital at the end of the year. . . . By causing the floating capital to change in value a loss or profit is made."

With respect to the learned Judge, this seems to be merely a re-statement of, not a reason for, the method. As Lord Hanworth had said in his own judgment, "the test of circulating and fixed capital is as good a test in most cases, to my mind, as can be found; but it involves a question of fact: was the outlay in the particular case from fixed or circulating capital?" He saw the difficulty but went no further into it.

Lord Justice Romer, however, went on with his analysis. He said, "the determining factor must be the nature of the trade in which the asset is employed." But it will be noted that he gave no reasons for this dictum. The statement is good commonsense but not logic. He then gave instances: the land on which a manufacturer carries on business is part of fixed capital; the land with which a dealer in real estate trades is part of circulating capital. The manufacturer's machinery is fixed capital, a dealer in machinery sells and buys it as part of circulating capital. The coal from which a gas manufacturer extracts gas is "part of the cost of producing the gas that he sells." But, one may ask, why is not the mine "part of the cost of producing the coal that the coal-miner sells"? This question Romer L.J. answers a few lines later. He says a mine is not part of circulating capital. Why? one may ask again. He replies (p. 564), "the mine is regarded as being fixed capital." The word "regarded" is obviously

the important part of the sentence. It would appear that His Lordship has fallen into the logical error of "begging the question" or arguing in a circle.

The further elucidation of the problem leads to even greater difficulties. On the same page a contrast is drawn between the position where a gas manufacturer buys a coal-mine and that where he buys coal stacked on the surface. Lord Justice Romer puts the first expenditure down as fixed capital, the second as circulating. The land on which the mine is situated is, he says, "one of the means provided by the manufacturer for causing coal to be brought to his gas works." Surely this gives a rather active character to a mine?

Applying this test to the case in dispute, His Lordship says: "Are the dumps the raw material of the appellant's business or do they merely provide the means of obtaining that raw material? In my opinion they are the raw material itself. And his decision is in favour of the appellant company.

With respect, it may be submitted that Lord Justice Romer has been caught in the "chain of causation," as logicians call it, and has been trying to solve the problem of the chicken and the egg. To maintain consistency with his principles he would have to find that if the dumps had been covered with a foot of earth, which must be pierced to reach them, then they would be a mine and, as such, a part of fixed capital. Lord Hanworth was on safe ground. He merely held that the facts in the case seemed to point to a manufacturing business applied to raw materials already won and that these facts distinguished the case from the *Alianza* case. He did not explain how, and indeed might have had difficulty in doing so. Slessor L.J. concurred with both judgments.

It is submitted that, in actual practice, the Courts have put an arbitrary limit to the causative chain to a different place in each case and have said "Here is raw material, which is circulating capital and here is its source, which is fixed capital." The method is illogical and arbitrary but generally commonsense. When, however, the Courts attempt to extract a general principle to explain why they put the limit at such-and-such a link (i.e. why the egg is

fixed capital and the chicken circulating capital) they immediately begin to beg the question.

It may well be that accountants have some better and more logical method of determining the question, which is unknown to the Courts. One would be glad to hear of it. Meanwhile it would appear that it behooves the law to avoid logic wherever possible; in the affairs of the business world what is known as "commonsense" is a good substitute.

Greeks Had Word for It: Still a Sales Tax Scheme

The Greeks had a word for it—and it wasn't "sales tax." But the idea was all the same.

Dr. Frank E. Robbins, assistant to the president of the University of Michigan and an authority on ancient manuscript, while reviewing a new publication dealing with economic manuscripts originating way back in the time of Aristotle, came upon an extract which tells young men aspiring for success in the realm of government of various devices by which they could raise funds for this purpose. One of these extracts outlines a plan effective some 410-409 B. C.

It says:

"The Lampsacenes, when the building of a number of triremes was in prospect, and the price of a Medimnus of barley-meal was 4 drachmas, ordered the merchants in the market place to sell it at 6 drachmas, and a chous of olive oil, priced at 3 drachmas, for 4½; likewise with wine and other things. The private citizen (i. e. merchant) received the original price and the city took the excess and secured an ample store of money."

The source is attributed to Aristotle, but "was quite certainly not by him," Dr. Robbins explained.

Sounds Easy

"Do you know how to regulate the stock market?"

"Certainly," answered Mr. Dustin Stax, "turn it over to the Department of Agriculture and have some of the securities of suspicious superabundance plowed under, once and for all."

D. R. O. P.

by HAROLD H. HAIGHT, C.P.A., Syracuse, N. Y.

MAYBE some of you people have heard of a thing called depression, yes, maybe you've felt it. I don't know how it can be felt because it ain't what's called a material thing. Jim Farley thinks it's immaterial and he oughta' know, he's the guy that's next to the feller that's got five billion dollars in his pocket to spend. So if this here depression ain't a material thing how come everybody says they've felt the depression. It just don't make sense, everybody must be goofy except President Roosevelt, his ten thousand professors, and Jim Farley, not counting the Cabinet because they don't any two of them agree on any one thing.

I've been hearing for some time about a book called Ten Thousand Public Enemies and all along I thought it was those Professors of the President but come to find out t'was just a bunch of pikers that was robbing banks and mail trucks and such. They're old fashioned, still working on rackets hundreds of years old. The Professors thought up some new ones like Processing Taxes, and N.R.A. code assessments. There's more money in it and you don't have to buy machine guns—just votes instead.

With all the lesson books and teaching skill these Professors have you'd think they would be ashamed the way they treated the hogs, you know, killing them off instead of educating 'em.

But I'm getting way off the subject of our depression. I suppose I should say what caused it, there hasn't been anything written about that yet—that is, not much. According to most writers it was the war and they write that up in so many different ways it sounds like a lot of different reasons. Now I don't say it wasn't the war but the war was over in 1918 not 1929. It took just eleven years for the world to remember there should be a depression after every war and got started on it. The deuce of it is that now they got it started nobody can remember how the darn thing gets stopped. Yes, sure down in Washington they think they know,

that's why they began killing hogs. Some Professor in Bible teaching remembered about driving the swine into the sea to get rid of the devil. He figured it was the devil of a depression and it wouldn't take so long to kill the hogs as it would to drive them all the way to Atlantic City from Iowa. He should have cooperated with the geography professor and found out how he could drive those hogs to Salt Lake, out to Idaho or somewhere. Maybe that salt lake ain't a sea but its salt water, and if you can compromise on killing hogs instead of drowning them, why can't you compromise on a lake instead of a sea. But may be you can't, I dunno, I ain't educated like them fellers. Then, too, maybe the Utahians didn't want this lake all cluttered up with dead hogs. Come to think of it, I know why that Professor didn't drive the hogs to Atlantic City, it's too near New York where the salvage boys bring in scrap paper, old iron, and such. Just imagine letting that gang get a chance to salvage hogs out of the ocean, it would crash the market for salt pork, and they know a lot of people eat salt pork even if they don't themselves.

Well, I got away again from depression and what started it. What do you think about the idea that we all spent too much of our wages on clothes, automobiles, radios, tobacco, candy, perfumeries, and like that and not enough on the mortgage on the little old house and a dollar now and then in the savings bank, not counting a little life insurance for safety? I know that sounds crazy after listening all these months to the educated guys in Washington who say spend your money, buy things, help industry and get your money back in wages. They say they know their economics and it's bound to work. But then they say the fellows who own mortgages shouldn't foreclose, and the banks are all right and good, and so are the life insurance companies and they make laws to keep that all sweet. Now, what can you and I do if we follow their advice, we spend our wages to keep industry going

and get our wages back again and if we don't keep it up our wages stop. Well then, if we spend our wages how are we going to pay money on the mortgage, buy life insurance and put a little in the bank?

You know what these Washington boys answer—put a little of your wages away and spend the rest. Sure, that's right, and that's what we didn't do before the depression, we bought and bought and put next to nothing on the mortgage, life insurance, and savings bank. How could a working man save money out of \$1,200 to \$1,500 a year when he paid \$700 to \$1,000 on a new car every three or four years? The answer is he didn't save—at least not what he should have.

So when a lot of people had wasted their money on bum stocks and foreign bonds that just started a scare and everybody stopped spending so much and tried to have a little more, then the factories went on short time and wages dropped, people didn't earn enough to support themselves, and their savings weren't enough to see them through. So here we are on relief and the government is borrowing money from the few that have it (from profits made on our excess spending) in order to give us food to live on. Ain't we the original darn fools?

Well, that's the cause of the depression—or if it isn't it sounds just as good as any cause I've heard of yet. Now about stopping it—so long as nobody remembers how they got stopped other times let's think up a good one, so far as I know there's no NRA code about thinking yet, so we don't need a license and we can't get assessed for it—not yet, anyway. The other night I heard some professor on the radio talking about "thought processes," and when they get talking about processing anything the taxes are bound to follow soon. So we'll hurry up and do our thinking now free of charge before we have to sort of bootleg our thinking.

How about taking the money away from the rich guys, spreading it around, and starting fresh. That's pretty close to Huey Long's idea and is a new one—that is, it's new considering time as an element, the world started about the same time as this idea just a few thousand years ago. Just figure how much money some of

these old rich families have been handing down from generation to generation. Yes, figure it but don't count on it much, because Uncle Sam has got a scheme for that. If you die and leave \$10,000,000 Uncle Sam starts in easy to take it away but he ends up strong, 60% of it strong. So that kind of stops this compound interest for 200 years idea. Then Uncle Sam foxed the rich boys by telling them they can't beat the game by giving their millions away before they die, they have to ante up, up to 45% in that game. Now that's what I call spreading the riches enough and don't let's get too rough or else nobody will have any chunks of money to start new industries with. We tried starting new industries by selling stock to little fellows like us at \$100 and \$200 a crack and then found out that the crack was too big and from 20% to 90% of our money went through the crack, into the stock promoter and stock salesman's pockets. Then we thought up the idea of cooperative associations. Hot dog, was that something. The farmers got one in the milk industry and how! Now three or four big shots control millions of dollars of farmers' money and the farmers can't find out what's done with it, they can't get together for voting and drive the big shots out, and part of the money is used for advertising to tell the farmer to stick together and everything will be O.K. And, too, the farmer doesn't get as much for his milk as if he sold it to one of the "rich bloated milk barons."

So I say let's go easy on taking the capital away from the rich guy, he isn't such a bad egg when you get to know him.

Well, we're still thinking up ideas (free of charge yet) to stop the depression.

How about starting the building industry going. We need plenty of homes, new barns, and garages. Uncle Sam says he will lend us money cheap for mortgages, labor is cheap, carpenters and masons want work, and the materials—well, let's see how about materials.

We have one of those N.R.A. affairs on lumber, brick, cement, etc. Prices are set by the code and the building materials suppliers were pleased as punch when that happened, they helped set the prices. What was the result? Apparently the public,

that's you and I, didn't agree with the prices because we stopped buying building materials. The suppliers begged, they teased, they cajoled and Uncle Sam started campaigns and sent his Professors to the radio. Results? Zero—Zero. A few "dumb" suppliers guessed the prices were too high, even too high for the suppliers to make a profit on—if they couldn't sell their goods, so they broke the laws of our land, and became criminals by offering to sell their goods at less than code prices. Chop off their heads cried the other suppliers, and off came their heads—in the form of a blue eagle, fines, and desist orders. Results? The suppliers are still looking for customers.

Now let's look over the labor costs of erection. Certainly that can't be too high. We'll compare methods of house building with—let's say building an automobile. If we want an automobile, do we go to a machine shop and tell the manager to get a foreman and a crew and start to work according to a set of blue prints? Well, if we did, we would get a darn poor flivver at the price of a Rolls Royce. You might reply that the comparison is far fetched and unjust. Maybe so, but you get the idea anyway. There is no good reason why the home building industry should not devise methods whereby an approach to mass production on homes could be made. Let's be prophetic and say that if and until such methods are found, home building will stagnate and it is barely possible that a new industry will be created for the purpose of mass production and erection of homes which will leave the present building industry in the ruck of archaicism and obsolescence.

Steady Dobbin—we're getting into the class of Professors when we try to talk like that.

Well, we haven't found a way to stop the depression, or have we? How about stopping trying to stop the depression? Here we see the Washington "judicious spenders" raising money, pouring out money (much of which spills into the gutter and goes down the sewers), passing laws, restricting, renovating, reconstructing, revaluing, retaliating, and in general retarding the return to comfortable living. Why not just stop all this, stop trying to

stop the depression. Wouldn't we be far better off if we all took our eyes, ears (and noses—because some things have an odor down there) and thoughts away from Washington and turn them to our own businesses, homes, gardens, and civic affairs. Let's assign to our Federal Government as one task the development of experimentation in new products, new uses of materials and waste, dissemination of knowledge in preservation of forests, water power and soil, and instruction in agriculture, fishing, etc. Let's take away from Washington its self-appointed task of experimentation in regimentation of industry, and bureaucratic supervision of business.

Well, at last we have expressed an idea to stop the depression, be it good, bad, or worse—"let's stop trying to stop the depression."

Now I'll coin a new set of alphabetical letters to sort of review and crystalize (so you can shatter it easier) this rambling D. R. O. P.

D. stands for Depression. That's the thing that is said to be a material factor in our daily living. But you can't feel it, smell it, taste it, or see it so how can it be a material thing. Let's agree with Jim Farley, President Roosevelt's best man in his marriage to Miss New Deal, and say it's immaterial.

R. stands for Repression. That's what the Ten Thousand Public Enemies, the professors in Washington, have bullied Congress into creating by their N.R.A., A.A.A., T.V.A., Holding Company, etc., legislation.

O. stands for O'yesin'. That's a new word. Instead of putting the O between I and N as in Depression and Repression, we put it at the beginning and have O Yes. You see that's what Congress has been doing whenever President Roosevelt demanded unrestricted and unlimited powers in the executive department. Congress said Oh, Yes, Mr. President, and have been Oh Yesing for two years.

P. stands for Progression. Progression is what we will have after Depression, Repression, and O'yesin' periods when we all come to our senses and adopt the slogan—

"Stop trying to Stop the Depression."

Administrative Problems in ACCOUNTING OFFICES

The Breakfast Discussion Thursday morning at the 1934 annual meeting of The American Society, convened with Clarence L. Turner, President of the Pennsylvania Institute of Certified Public Accountants, presiding.

Chairman Turner: This is to be a round table discussion. The problems in accounting office management, of course, depend on the size of the office and, also, on the nature of the practice. For a start I have asked a couple of our members from Philadelphia to tell us something about one or two branches of administrative functions in accounting offices.

One subject we might discuss is Training of Juniors and Assistants. I have asked Mr. Russell to tell us something about that subject.

Donald Russell (Philadelphia, Pa.): I think the idea the Chairman had in mind was a description of the staff school that we run, and have run for several years, for the training of junior accountants.

We started in 1916, I think it was, with a class of two men, and in 1921, we started the practice of an annual school, which would start on about the fourth of July and wind up around Christmas. This school usually had ten to fifteen men in it, for the most part, graduates of the Wharton School, Cornell, Princeton, and other men who had been selected for additions to the staff. The purpose of the school was entirely to give practical instruction and no theory at all, the principal idea being to develop certain accounting technique on the part of these men who had had a good grounding in the theory of accounts.

I suppose the idea developed from the fact that it would be hardly right to take these men into clients' offices and train them there. Of course, the school is supplementary and is not, in any sense, a substitute for the training accountants are

supposed to give their assistants in the field.

It is concerned with very practical things. For example, on the question of ordinary footings, boys out of college who may be very well qualified for positions, promising young fellows, fall down hopelessly on ordinary, clerical routine. These men, almost every day, for three or four months, are given a seven-column sheet of paper, with six money columns, thirty-two lines, in amounts of three to five digits, and they are told to cross-work them, vertical foot and prove out the sheet. You might be surprised to know that some men who stacked up very well in college, and who are fine on the theory of accounts, would take a full day of seven and one-half hours to do that job when they start in. We found that the average of the entire class was about one hundred and eighty minutes at the start. We make them do this problem once each day, until they can get down to an average of about forty-five minutes.

In addition to this work, they get the ordinary use of adding machines and then they start in and count cash. They are shown how to handle a stack of bills so they won't appear to never have tried it before if and when they go into a teller's cage.

We have some old sets of books, obtained from some receiverships, and they are given the job of going through them taking off a trial balance and proving it up as of some interim date, aging accounts receivable, preparing confirms, checking extensions and footings of inventories and making analyses of general expense accounts out of the ledger of an old set of books. We have a drawer of old fire insurance policies. We have them go through the policies and take off a schedule of prepaid insurance of a certain date. We have a drawer of old mortgages and they are

instructed to examine them, to look for and find exceptions.

For two or three weeks during the course, one of our men, especially qualified on bank and brokerage work, comes in and gives them work on long and short book confirmations, the pricing of securities, and that sort of work. We try to duplicate the conditions in the client's office, and train them so that they will handle themselves as if they had been in an office before, when they go out to the client. We try to give them the proper coaching on the handling of the client's records, proper marking of the client's records, neatness, and so forth, as there is a constant effort on speed, which we think is necessary.

These boys have lacked any office experience at all, for the most part, and it fills a gap that is very evident if you try to take college men, as a preferred class, on your staff.

Martin Kortjohn (New York): Is that done on company time or their own time?

Mr. Russell: Their own.

Charles Edward Fernald (New York): Who are the instructors?

Mr. Russell: We kept one man on it for three years.

Mr. Fernald: Is there any reason why this training should not be given in the schools?

Mr. Russell: I think the educators are more or less justified in saying they are going to give the men the theory of accounts and they expect them to get this manual deftness after they get into practice.

Chairman Turner: I might answer Mr. Fernald on that point.

The Pennsylvania Institute has a committee, this year, on Development of Institute and Membership. Frank Main is Chairman of it, and the Committee has made a suggestion along this line. Our Educational Committee, in the Philadelphia Chapter, made a similar suggestion. The idea is to have closer cooperation by the Institute with the colleges giving accounting instruction and the Institute members showing enough interest to visit the different colleges, talk to the accounting students, and give them some of the practical sides of just such things as Mr. Rus-

sell mentioned.

Mr. Russell: There would be certain things we would want to do ourselves, anyway. For instance the preparation of confirms; there are certain things we would want to teach them about the way we want it done.

Mr. Fernald: Yet, in engineering courses, there is also the question of teaching the students speed in making their calculations when working out engineering problems, and this training very definitely comes right in the engineering courses. A lot of it is planned to make them speedy in their calculations in mechanical work.

Samuel Leopold (Trenton, N. J.): I have had some experience along those lines. I think this whole problem is one in which the schools are very deficient. As a matter of fact, it is astounding how little the students do know when they go through a four-year accounting course. They are not equipped to do rapid calculating. They used to stress it when teaching bookkeeping, but the accountancy schools don't put any stress on it at all.

I had experience with a young fellow who had had a four-year college course, and I couldn't give him a single thing to do. I don't think we can entirely duplicate the office in any school. Each particular firm will have certain things that they will want done their own way, but there are a lot of things that could be taught in the colleges. One of the reasons that is responsible for this condition is the fact that the professors (and many of them are able C.P.A.'s in practice) have a set routine course and they don't vary it. They mark the men according to the "pony," with the result these men don't get a varied type of work. They make up their statements in one form. They never get enough diversity to make them realize there are other ways of doing things. I had that experience myself and I have had it with other people.

Mr. Fernald: We, of course, do not have a firm the size of Mr. Russell's, but we have been having brought home to us the absolute need of staff training and we have tried to work the thing out by having a series of conferences, trying to run one series each year, when we find we are

getting into the dull season—the latter part of spring or early fall. We had a series last year on the income tax proposition, trying to meet the needs of the ordinary accountant who does not expect to be an income tax expert, and yet, is continually faced with answering questions on tax matters.

Those of you who attended those New Jersey Society conferences last summer will have some idea of the way we conducted them because those were rather modeled on what we had previously given in our office. We have had some other conferences where we put on the question of office routine, and we have been very much gratified at finding how the men took it up. We arranged to start at five-thirty, running until seven for perhaps a dozen sessions, and practically everybody who was not actually out of town, would attend these sessions, and take a good deal of interest. We were shooting over the heads of a lot of the men, but what we did was to make them appreciate there was something more to consider. The ones, who were really getting hold of something and developing questions, have asked the firm to repeat, with the result we are going to conduct a series of conferences this fall on the auditing proposition, keying all the audits together in uniform procedure as much as we can, so that each man will be able to follow the other man and know readily what he has done on the audit.

Mr. Russell: It seems to me that the problem is not concerned with the size of the staff, particularly. It seems to me it is concerned with the efficiency of the educational school. I rather have the idea that we can't expect the educational institutions to turn out expert clerks, in addition to giving them a background in English, marketing and advertising, salesmanship and finance, and all those things they have to cover, in addition to accounting, in a business course. It seems to me it is directly tied up with the idea of trying to use college men, in preference to a man who has had a lot of office experience, as good material for the staff.

Fayette H. Elwell (Madison, Wisconsin): We have taken the attitude for many, many years in our organization that

this is not the problem of the university. We feel it is a problem for the student to develop on the outside. I admit the deficiency but I can't expect the university to give credit for that work.

Back in 1913, I was first examined by Mr. Allen, of the famous Allen Survey. One morning I went into my class on C.P.A. Problems and he gave an examination—an examination in higher accountancy. He told us to take a piece of paper and turn the page when he said go, performing the operations he required. I stated it was a class in rapid calculation, not accounting at all, and he took exception to that. We had a very merry time. The result was, the entire institution—administration, and everybody else—and all the C.P.A.'s in Wisconsin came to the defense of the proposition. We say that that training should be obtained on the outside and that the college could not give any credit for it.

Chairman Turner: There is one item that you might mention, that is, how you handle some of your men by working them through your typing department.

Mr. Russell: There are really only two ways to come on our staff, one is to come in as a member of this class, with the exception that we do take on high school graduates as office boys, and after two years as office boys, they go into the typing department. From the typing department, (we usually pick out one man each year, occasionally, perhaps, two men) they move up and are put into this same class with the college boys.

Mr. Leopold: You mean the typing is done by these men?

Mr. Russell: Yes—we don't use any girls at all—and they are mostly business college graduates.

Mr. Kortjohn: The reports are not typed by girls?

Mr. Russell: No.

Oscar V. Wallin (Philadelphia, Pa.): What is your reason for that procedure?

Mr. Russell: The decision was made after a couple of pretty tough winters and a great deal of overtime. The experience was that the girls were not able to stand the gaff, physically, in February and March.

Chairman Turner: We used to do that

same thing but we found our organization was too small to continue it. The men got so impatient, we couldn't advance them from the typing department fast enough to the staff, so we had to revert back to girls.

Another subject is Handling of Assignments and I have asked Mr. Wallin to introduce it.

Oscar V. Wallin: The assignment of time is principally a merchandising problem. That is the best way to describe it. You purchase a certain amount of time and your object is to have that, as nearly as possible, turned into revenue. The unassigned day costs just as much as the assigned day does. If someone could develop a scheme for the removal of the hills and valleys from the accounting profession, there wouldn't be much of an assignment problem.

The method that we happen to use is probably universal. Our first step is to prepare the assignment record. In the case of an old account, we know quite well about what is required. A special client may develop additional requirement for servicing in the coming year. In the case of a new client, we usually attach to the assignment record a copy of the report made at the time the assignment was given. These come to our assignment clerk after they have been noted by myself or someone else in authority. If there is any preference as to the accountant best fitted to handle that assignment, we make first choice and second choice selections. In the next schedule, these assignments are placed on a columnal form with the accountants' names spread across the top, and all of the time that has been promised is assigned.

We then take a summary to see what open gaps we have left and try to fill those in with the type of assignment that doesn't have any special requirement that any qualified man in that class can't handle.

We next classify according to months, so that we are as well prepared as possible for the inevitable February application of time. We have had the best success in leaving a certain amount of apparently unassigned time. Take, for instance, if I had a period of ten days on one man, I

would not be in such a hurry to fill that up because I find it is easier to move the next assignment forward than it is to back it up. There are two possibilities there; the first is, their previous assignments may overrun the estimate, and the second is, right at that particular time, when that date arrives, it would be most valuable to be able to call on his time for some new assignment which may come in.

We use our judgment as to whether we fill in those blank spaces or not. We try to provide that in no case a man may work more than ten hours a day. Sometimes that is exceeded. It is just another leeway that takes care of the difference between the actual performance and estimates.

That takes care of everything except the portion of the work which may not be directly assigned and is set over to one side for temporary men. Of course, we have one classification of juniors or assistants and from that we decide how much additional time is required outside of our own, regular staff.

Mr. Leopold: You say you try to arrange your programs so that no man works more than ten hours a day. Those are not the regular hours, are they, but just in case of abnormal conditions, I presume? I would be interested in knowing what the regular number of hours is. There is a difference of opinion in my own city on that.

Mr. Wallin: Seven hours constitutes a day with us.

Mr. Leopold: There are some firms that say six and one-half, others eight, and some say govern yourself by the client's working hours.

Mr. Wallin: That used to be our own rule at the time when working hours were running more stable. In my first experience in the Middle West, the matter of working hours was not quite as rigid as they are here.

Mr. Leopold: When these men work more than the regular hours they get overtime pay, don't they?

Mr. Wallin: Yes.

Theodore J. Witting (Denver, Colo.): Do you make them put an extra hour a day in at the office, or are they supposed to report at the office within the seven

hours a day?

Mr. Wallin: They report at the office each day unless the assignments are so located that they can't do it.

Lewis Sagal (New Haven, Conn.): Do the seven hours include the lunch hour?

Mr. Wallin: No.

Philip Suffern (New York City): Do you pay your regular men overtime or only your temporary men?

Mr. Wallin: Some of the lads would rather have longer vacations, for instance, and that is taken into consideration. That is governed by the amount of time they have been with us. We try to cover the irregular condition with an arbitrary check. We find that has a stabilizing effect and takes out of their mind any thought that they are classified as a brick-layer or plumber would be. They are paid for their additional efforts rather than the number of hours additional that they have put in.

Chairman Turner: Do you have a thirty-nine hour week?

Mr. Wallin: Thirty-nine, yes, closing at one o'clock on Saturday.

Frank Wilbur Main (Pittsburgh): Do you hire your men, that is, your temporary men, on an hourly basis or a monthly basis?

Mr. Wallin: Monthly.

Mr. Main: You pay them for all overtime, you said?

Mr. Wallin: Yes.

Mr. Main: Do you give them any notice?

Mr. Wallin: We try to give them ten days' or two weeks' notice.

Mr. Main: I would like to raise this question. This seven-hour day, I think, has been more or less prevalent for many years and has worked out all right because most clients work seven hours — very often, seven and one-half or eight — so there is plenty of leeway. We have some large clients who, because of the NRA, are now working six hours and not working at all on Saturday. It is beginning to cut noticeably into the charge because, for each day, it is only possible to charge six-sevenths of a day and no charge on Saturday. It is, simply, thirty hours a week, or four days.

Mr. Wallin: We thought for the time

being we wouldn't make any definite rule on it, but if the six-hour day and the five-day week becomes an accepted thing, our rates will have to be adjusted to meet that situation because the time is available and it costs us as much whether we use it or not.

Mr. Main: In the old days, we could use the man on something else on Saturday, but, today, it is a problem.

Mr. Wallin: We gave some thought to it but haven't done anything about it. We thought of putting them on a weekly basis rather than a daily basis.

Mr. Main: Mr. Russell, have you considered that?

Mr. Russell: We haven't considered it.

Mr. Fernald: We have been trying to work the thing out and had some pretty good success with it. I don't mean to say we have worked it out entirely, but we find in a great many cases, it is not a bad thing at all for the men to have Saturdays as a kind of round-up day on their work. Some of our men really like that very much, to be able to have Saturday in the office. Some do it in the office and others are able to arrange to have the client's office open to them on that day, where they can review and summarize their work. Some of them very distinctly like it for the better progress they seem to get out of it. That seems to depend on the initiative and ability of the men in charge of the work. Some of them seem to really employ it excellently; other's don't seem to have gotten the idea. Some engagements, of course, do not lend themselves to it.

Mr. Wallin: As to the point Mr. Main raised on Saturday forenoons, do you find they are recovering the time?

Mr. Fernald: That depends on the engagement. We have a great many where we are working on fixed, regular fees, and on some of those we haven't found that it is taking any longer in chargeable time with the Saturdays off than it did before. I don't recall any particular difficulty we have had in those assignment days. They charge it as time in the office.

Mr. Wallin: I can't imagine a man using those hours to any better advantage than you outline. If he puts his job in running condition for Monday morning,

it seems to me, that it is a profitable investment of that time, as far as the client is concerned, more than if he were to work straight through.

Mr. Fernald: We have had a good deal of occasion to use it as pickup time. If I have a man who had been on a certain engagement and a question came up regarding it so that I wanted or needed to get hold of him, I find I can get him on Saturday without having it interfere with the work he is on.

The wise men use that time, Saturdays, not merely to round up their work but also to prepare or outline schedules and comments as they go along. The wise way is to write your comments as you go along, but try to get a lot of men to do it! With this Saturday idea, a good many of them are coming down, though, and writing their comments, doubling up their statements and actually planning the work on Saturday so that when they come to the end of the job, there is less time taken in drafting their report. We haven't settled it but those seem to be the lines the problem is following with us. That has gotten to be one of the problems of our office conferences, one that we have to bring up in our own office.

Chairman Turner: Mr. Fernald, do you attempt to have the report, or as much of the report as is possible, written on the job?

Mr. Fernald: Ours is a smaller organization proposition. We try to have our reports written completely by the men in charge of the engagement. They are supposed to turn in a complete report. Often that report has to be torn to pieces when it gets in the office. Having the man on the job write and assemble his report is the right idea, I think.

We find two different classes of clients. Some of them want us to get out of their offices as quickly as we can. Some of them are terribly congested and they are glad to have us get out. They think nothing of taking extra time in the office to prepare the report. Others keep a time record themselves on us, as to how many days we are up there. With the smaller firm you can have a greater latitude in taking into account the peculiarities of the individual client, which is not so readily

done in one of our really large firms, perhaps. It interests me very much to notice the difference in people in that direction.

Mr. Leopold: You were speaking of your men dummied-up the statements, and that sort of thing. It makes me think of a device I use on a lot of engagements, that are of a recurring nature. I have the statements made up on the ditto machine in advance, the whole width of a fourteen-inch work sheet. I have a set of each made for a year in advance. You don't have to dummy-up the thing at all; it is all there for you.

Mr. Wallin: That applies on annual work as well as other work.

Mr. Leopold: On monthly work or on annual work, I use this method. Whenever there is a slack time in the office, I have them go through it, head-up work sheets, and put them in a folder, ready, even to dummied-up some of the schedules. We keep track of it and I do it when I can spare the time more easily. When we have a chance to do it that way, we have a girl typewrite the work-sheet up and put the names of the accounts in. Of course, we leave room for accounts that might have been added in the meantime. It results in a neater job in the end.

Mr. Wallin: Here is an experience we have had. I should preface this remark by saying, the second time any man does anything, he ought to do it better than he did it the first time. I have had the experience time and again, after a report is delivered, when I wish I had thought of putting a certain thing in there, a certain schedule or other information. At that time, I put that idea on paper and into our permanent file.

We find plenty of ways to use considerable of the unassigned time. One example is in the case of a client we have had for a year or two years, where we haven't had an opportunity to provide a good comparative statement, or it was not required for credit purposes, it improves the report to include that when it goes out. If we could have that done during the slack time, it would leave time free to fill in the current year's figures by the accountant. Then he has an extra piece of information which we are able to put into the client's hands, with no additional cost

to him or to us. I would rather have that time spent that way than to have it lost entirely.

Chairman Turner: After your reports are turned in to the office by the accountant in charge in the rough, what is your procedure for completing it and approving it?

Mr. Wallin: I don't know whether our procedure is followed by others or not, but it is turned in to our district censor, who reviews it. The man we have now has had three years' training in our general office, in the Censorship Department, and then was transferred to Philadelphia. If it is not an irregular report, I probably won't see it. If it has some irregular points, he will pass it on to me. Then the report is sent to our general office, for typing, and the same process of censoring and reviewing is gone through again.

We have had considerable difference of opinion in our own organization as to whether that wasn't an added cost and a wasted expense. We came to the conclusion that the original idea was too good to throw overboard. The district censor, who is five hundred miles away from our office, reads that report, with the type of mind of the eventual person who uses it rather than the fellow who prepared the report. It has enabled us to put ourselves in the place of the reader of that report. The mathematical errors are checked after the report is typed. The report is typed first, and then all mathematical work is checked. Otherwise, the typist could make an error that might not be caught. The number of cases where there was mathematical error is so small, as against having the work checked before it is typed and afterwards, we have satisfied ourselves that is the best way to do it.

We have had considerable discussion on it and have stuck to that policy for more than fifteen years of having what we term a double censoring of the report.

Mr. Fernald: Doesn't that make friction along the line, when there is a change made by someone a thousand miles away?

Mr. Wallin: You can tell the fellow who is on his toes and the one who isn't. He wants to see his manuscript. The attitude is, "Let me see what they did to this." He looks through it. We use different col-

ored pencils, one green and one red, so you can see at once what changes the general office made, and then he decides whether they were right or not. It puts a fellow on his toes in a way I can't imagine anything else would do.

Chairman Turner: I have a question submitted to me along this line: In connection with the editing and preparing of accountants' reports, the following questions are asked: A rough draft of a report sent in is reviewed by a partner, as to the accuracy in respect to agreement of work to be covered, style of report, procedure, protection of the firm as to the nature of comments, and then turned over to the typing department. What are the advantages of comparing figures in comments with statements and verifying correctness of all figures in statements and schedules (a) before typing and (b) after typing?

Mr. Wallin: My answer would be, as I said a minute ago, the number of possibilities where the accountant has made an error of one cent, one dollar, or ten dollars, is so rare, if we were to do that checking before it is typed, we would have to do it again after it is typed anyhow. We don't check it until after it is typed. If there is an error, that page or that schedule is sent back for retyping, with the correction marked.

Mr. Fernald: And a few side comments to the man who made it.

S. Charles Steele (Morgantown, W. Va.): Right along that line, I want to ask what policy you follow as to corrections on the balance sheet or profit and loss statement. Do you permit your typing department to erase them?

Mr. Wallin: No, that has to be rewritten. It goes back to the Censoring Department and they decide what has to be done.

Mr. Steele: You do not permit any erasures whatever?

Mr. Wallin: You can't because of the carbon copies. You don't know whose hands the report is going into.

Mr. Fernald: We do make corrections where they can be readily made without difficulty, and we find our girls can make them so that they don't smudge up the report.

Mr. Wallin: I spoke of my experience in censoring. Several years ago, I took a short course in our Typing Department in Chicago, and our Censoring Department, but they didn't allow erasures. I don't know what the practice is now. They might have developed finer types of carbon paper since then.

Mr. Leopold: It is not a matter of carbon paper, it is a matter of the skill of the typist.

Mr. Steele: I can tell on my paper whether there have been erasures or not. I have followed the principle, on the exhibits and schedules, accounts receivable, and things like that, where there is a name corrected, I let that pass. I just wondered if that was a good practice or the usual practice. It is one of my peculiar practices, anyway. However, I wouldn't permit an erasure on a balance sheet, or a profit and loss sheet, or in the comments.

Mr. Wallin: How many of you here have a wording like this, or similar to it, in the report, "that the report must not be taken apart," so that one cannot extract the balance sheet and issue it separately? Some firms adopt the policy of printing that on the bottom of each schedule.

Mr. Main: I don't know of how much value it is but we follow that practice.

Mr. Wallin: We type at the bottom "accompanying and forming part of our report."

Mr. Main: We find the officers of the State or County will turn the reports over to the newspaper reporters, and that happens with any report rendered to a governmental agency. One of the problems is to convince the reporter he can't get the information until the report goes to the client. They follow the practice of using as little or as much of it as they want. There is no way to stop them. Those are the reports we should put it on and we don't, yet only sections of such a report are printed.

Mr. Leopold: Does the name of the firm appear on each sheet of the report?

Mr. Wallin: Yes.

Mr. Leopold: The purpose is to prevent a report being taken apart and a sheet used separately. If you have your name printed on the top of the sheets, you don't

need that printed at the bottom.

Mr. Wallin: We do it from the standpoint of education, more than from a fear of being hurt ourselves, although both conditions are possible. The tendency would be to say, "There is the balance sheet of the accountant. I will take that out and use it," disregarding the qualifications that appear in the comments.

Mr. Kortjohn: If you bound it securely, it would have to be defaced to take it out and easily recognizable.

Chairman Turner: Some firms make a practice of putting on the balance sheet, "This statement is subject to comments appearing in the report." That answers the same purpose.

Mr. Wallin: We put it at the bottom of any schedule that goes in the report. The typists are instructed to put that at the bottom.

Chairman Turner: Your pages are numbered, too, and that fact would indicate that the sheet or schedule had been removed from a report.

Mr. Wallin: The balance sheet, for instance, can be taken out and either copied or removed, and the writer of that report can be hurt without the client intending to hurt him. I think a fair example of that was the practice that the National Credit Office started, two or three years ago. After the accountant finished his report, it was given to the client and then the National Credit Office would send a special certificate back and if he could answer yes to every one of the questions, he had a good certificate.

Mr. Leopold: I had a statement go out like that and they asked me to have a statement prepared for a certain credit office, so I picked out the balance sheet and certain comments pertinent to it and sent them along. Lo and behold! They had that copied and a facsimile broadcast to all their agents of everything I said about this particular firm.

Mr. Wallin: Did you deliver it to the client and let him deliver it to the credit office.

Mr. Leopold: I delivered my report to the client. When they sent out the statement, they corresponded with me directly and this letter they reproduced was my reply to them. They asked for complete

information about certain things, which I gave them, and then they broadcast it.

Mr. Kortjohn: Haven't we, in the past, grievously sinned by having clients either get a short, so-called certificate, or haven't we encouraged them to use our reports without using them intact? Haven't a great many of the hazards Dr. Klein spoke about yesterday been caused by the fact that an interested person would get hold of the statement and say, "There is the accountant's statement," without feeling obliged to read what had gone along with it?

Chairman Turner: In years gone by, it had been very much the custom to submit to the banks, and other credit agencies, a condensed report, but for the last four or five years in Pennsylvania, we have been working close with the bankers and the Robert Morris Associates, and I think there has been developed the practice of the banks requesting a full report. We still have instances where we are asked for condensed reports, and in those reports we attempt to insert certain comments or any qualifications which we think should be called to the attention of the bank or credit agency. We also, in the first paragraph of the letter, refer to the fact that a detailed report was made to the client on a certain date, which puts the banker or credit agency on notice that such a report has been made and it is up to him to ask for it.

Mr. Fernald: You can't do that on your public statement for stockholders. Where your client wants to print a statement for stockholders, there you must give them a condensed report that says all that you feel needs to be said on that report.

Mr. Wallin: Mr. Turner's point can still be brought out there. It is a matter of, "Here's our condensed statement. There is a detailed statement filed with our client." The reader of the report is put on guard.

Mr. Fernald: A corporation with a hundred thousand stockholders can't distribute to all of them a hundred-page report of the accountants.

Mr. Wallin: A lot of progress has been made in getting people to read our reports. I can't refrain from talking on my pet subject here. In Philadelphia, we had a

discussion on this. Allen Smith was discussing condensed reports. He said, "If it requires twenty-five pages of comments to explain a report, we certainly ought to take the time to read those twenty-five pages." Of course, he wasn't thinking that way prior to this cooperation program.

Mr. Main: In connection with the reports for large numbers of stockholders, we are finding that it is very helpful, wherever possible, to review with the president or the chairman of the board his report, with the thought in mind, not of telling him what he should say, but of seeing that in his report there are certain data or information which will help clarify the accountant's report. There is always danger in a short certificate that somebody will be misled and that can be overcome by a few comments in the accompanying executive's statement.

Mr. Fernald: Whatever we do, we don't make the published report as complete as the detailed report which would be rendered to the executive officers.

Mr. Main: The executives can supplement the report with certain data.

Mr. Fernald: It wouldn't be fair to say, "This is in accord with our detailed report we have rendered."

Mr. Main: You couldn't do that in connection with a report where they have ten thousand stockholders.

We are finding this, that the executives are more prone now to call attention to the unfavorable things because they realize that these are depression years and that they can make a large number of charge-offs with the idea of getting some credit later on if conditions improve. The executive in writing his report is anxious to get all the help he possibly can.

Mr. Sagal: Does he ever make a suggestion as to how the figures should be set up?

Mr. Main: Not very often.

Chairman Turner: Here is a question on reports that has been asked, as long as we have drifted into that subject: What effort do the various accountants make to prohibit their recurring annual reports from becoming stereotyped? What effort is made to insert new matter in the report, so that the client, when he gets his

second report from you, won't think he is paying you twice for the same thing?

Mr. Kortjohn: Get a new partner every two years.

Mr. Sagal: The last two years were easy because of the fee being cut, we cut much out of the report.

Mr. Fernald: A great many clients want a pretty consistent arrangement for comparative purposes, and do not want too much difference in reports from one year to another, either as to schedule arrangement or anything else.

Chairman Turner: That is what we find.

Now, getting back to office routine again, there is another item that it might be well to discuss. It is the handling and preparation of tax returns, that is, the routing of them through the office, to make sure that they are all prepared and filed on time. In these days when so many different kinds of tax returns are prepared, and when you have clients that do business in several states, you have not only the Federal returns to think about, but also the State returns. Then, also, there are cases where you may prepare the tax returns for the corporation, and several of the officers may also have you prepare their individual tax returns, especially where they are close corporations and it is all part of the one assignment.

What we do is to maintain a card record, for instance, for the Federal Income Tax returns, and under that subject there is a card for each return that will have to be made, whether it is a corporation or an individual, and separated as to calendar year and the fiscal year returns. On the card, is the information as to the officers required to sign the return, date when the return is to be filed, the date it is assigned to a member of the staff for preparation, the date he turns it over to the typing department for typing (which is not done of course until after it has been approved). We have a double check and then the card shows when the girl in the typing department has mailed the return to the client for filing. Then we have subdivisions of that file for the Federal capital stock tax returns, for our various State returns, and so forth. Is there anyone who would like to ask any questions or who has anything to offer on this sub-

ject?

Mr. Kortjohn: If you want the procedure of a very small office, we maintain a card for each client, with a tab on it. We cut out the tabs that do not apply. March 15th is covered by a red tab, indicating Federal return. If they have a State return, the month is noted. Ordinarily, we don't take care of returns other than for New York State. As the month approaches, the man in charge of that case, or assigned to that case, has a note slipped into his correspondence box that during the current month or the next forty-five days, he will have to prepare such-and-such return. He prepares that return entirely from the reports, and it is supplemented by individual information, if it happens to be an individual or a trust, and turns that over to a member of the firm—my son—who checks it entirely with the reports. This is all done in pen and ink on the working copy. Then the report is sent to the typist, or as a matter of practice, put in a file ready for typing. Reports have to be gotten out in a day or two. The typist types it and then it is gone over carefully by the office manager, who happens to be my daughter, and it gets a second checking. It is read back, of course, every line of it, the mathematical work, etc., and then it is put on my desk for general review. There could be fifteen errors in it and I wouldn't catch them. A card is made out, addressed to the client, just a postal card, saying, "Gentlemen, we have this day received your return which we shall file on such-and-such a date," and there is a notation on where to send it. Unless we get that card back, or rather, until we get that card back, the case is not closed. Then a record is made on this card, which is filed, that Mr. So-and-so acknowledged receipt of it. After that, we dismiss it from our minds. That is an elaborate system, but in a small outfit, employing only a dozen people, you have to do it and I haven't found any simpler way to do it.

We use pen and ink only. Our reports consist, at least seventy per cent of them, of monthly audits—twelve reports a year. We do not use the ditto machine but we make an original and five copies covering the first six months of the year, which the

girls make twice a year. We usually type on the bottom, "This report is yours and not that of the office. You can't use this draft to establish an alibi." That saves a lot of work. It saves a lot of time because all he has to do is put in his figures and it tends to uniformity.

Chairman Turner: What is the practice of preparing tax returns? Do you have members of the staff that are working entirely on taxes and who take care of the returns, or does the accountant in charge of the particular audit or examination proceed to prepare the tax returns?

We attempt to have a separate division of our staff to handle the tax returns entirely and that works very well for January and the early part of February, but we find that they are not able to complete all the returns that we want to file by the fifteenth of March, so around the end of February, we have to call as many as we can off the audit work and put them on making tax returns. I suppose that is the experience of everyone.

Mr. Sagal: In connection with income tax, and the signing of affidavits on tax returns, to what extent are they being signed? I would like to get the consensus of opinion of this body. Are they putting in ifs, ands and buts, or are they signing them as they are printed?

Chairman Turner: In our office, we started to make some qualifications. We decided, however, it was a lot of foolishness. Last year you will recall there were separate forms which we felt perfectly safe in signing because they read that you either prepared the return from the records or from information furnished you. We thought that was enough, without any further qualifications.

Mr. Sagal: In your opinion, is it correct?

Chairman Turner: Correct in accordance with information you have gotten yourself, or with information supplied you. In each case where we prepare tax returns from information supplied us by clients, the clients must submit to us a typewritten, signed statement of that information, and we attach that to our work copy of the return.

I had one occasion in the last couple of weeks where the taxpayer was trying to

put it over on the Government. I smelled the rat when the Department raised certain questions. I had to go back to the client for additional information. I took the copy of the return down to the Department and said, "Here's exactly what we were given," and they were satisfied as far as we were concerned, that we had made the return according to the information that had been submitted to us.

Mr. Sagal: We also have them sign a release that we are not responsible for the figures, that we take them as we receive them, that we accept their figures and just use them to fill in the form. We assume no responsibility for the accuracy of the figures.

Mr. Fernald: I don't think we have signed any of those forms, but in each case we have written our own statement of the work done. We will not sign a purely routine form. If they want a fair statement from us, we will give them one. We have had a number of demands on us to sign that form. We have taken the position that that form does not, generally, cover the work we do and we are not going to sign a routine form and they can't make us sign it.

Mr. Wallin: What will be your policy on this year's return?

Mr. Fernald: I think our policy will be the same. Our stand on that proposition will be that there is no requirement of law that says we shall swear to that return. It is not our return. We will give them a statement to the extent that we participated.

In that connection, I have been trying for some years to work back from that and insist that the client or taxpayer must, himself, have more acquaintance with his return, or have somebody in his office with a reasonable idea of what the return is, for his own administrative guidance. More of our work has come to be in a consulting capacity in the preparation of the returns rather than in the actual preparation. The cases where we have typed in our office returns prepared by the client are quite numerous also, where, after we have had some consultation, and further in cases where we actually do, largely with personal returns, the work of going through the check books and all that stuff, preparing the personal

return for women who have some wealth and who come in with their check books and the actual return is made in conference with them. In such cases we have been accompanying the return with a statement of what we have done.

I am prepared to fight that through with the Commissioner, if necessary, on the question of whether he wants a real statement from us on this thing or whether he just wants some formality which doesn't mean anything.

Mr. Sagal: Sometime or other, that little statement is liable to kick back. I don't think we have sent one through the office unqualifiedly signed. We always cut out some of the language; where it refers to a pure, unqualified guarantee, we cross that out and finish with the words "as disclosed by the books of account," not taking any more responsibility than we have to.

Chairman Turner: I don't remember how the wording reads on the new returns, but I do recall the little form and the regulations. There were enough "ors" in the wording that left us out. We felt if we started to qualify some, we might not qualify enough and leave so much out that the Commissioner might attempt to pin us down closer than he would if we just signed the form in the event there was any inquiry made in regard to the return.

Mr. Sagal: We just cut out some of the stuff they had printed on the form. In some cases we said, "as disclosed by the books of account," to eliminate any trouble.

Mr. Fernald: You must remember the decision as to what is disclosed by the books of account.

Mr. Wallin: After you have done that you have taken advantage of all of the exceptions you think you ought to from there on anything which might develop later would be held against you, while the form contains a general statement.

Mr. Russell: On those forms, we have insisted on the right to use our own wording in describing what we did.

Mr. Kortjohn: Have there been cases where there has been a comeback? You only swore that you didn't conceal anything that was known to you. I didn't get excited about it but the Institute did. I

felt as long as I didn't fail to disclose anything known to me, I wasn't in jeopardy.

Chairman Turner: Towards the end, we were not filing them at all. Very seldom do I see tax returns, unless there is something unusual about them. I recall seeing a letter from Secretary Morgenthau, addressed to the collectors, and I am not surprised that the wording that was on the forms is not as strict as is now used on the returns. Mr. Morgenthau is not very enthused, as I take it from the letter I saw addressed to the collectors, about having representatives of taxpayers prepare returns.

Mr. Fernald: The decision I referred to brings out the fact, "according to the books" doesn't mean the general ledger. If there is anything in the books anywhere which would indicate that the results you give are not correct, you are not living up to your statement.

Mr. Sagal: I said "books of account."

Mr. Fernald: Books of account include all the records which go to make up a set of accounts. If there is anything in those books anywhere which is not in accord with the final result, then your statement is not in accord.

Mr. Sagal: If you eliminate books of account and conform with the general ledger you are all right then.

Chairman Turner: Gentlemen, as it is ten-thirty, we shall have to adjourn.

Accumulation of Income

(Continued from page 411)

If the foregoing statement, supported by schedules showing the analysis of the items included therein, were submitted to the attorney general, and request made for permission to accumulate the income in a Fund, the income from which to be used for educational purposes, e.g., university training, etc., it is reasonable to presume that approval would be given.

If permission were requested to appropriate the accumulated income for the purpose of erecting a gymnasium, it would appear to be more than likely that such a disposition would be approved as an adequate and proper one.

Homer Adams Dunn

The first break in the list of past-presidents of The American Society has come. Homer A. Dunn turned in his last earthly report Saturday morning, June 15, 1935:

The New York *Times* carried the following memoriam:

"Homer Adams Dunn, a member of the firm of Haskins & Sells, public accountants, 15 Broad Street, died early yesterday morning at his residence, 161 West Sixteenth Street, at the age of 75. Surviving are his widow, Sadie R. Dunn, and a son, Roland I. Dunn. Services will be held at 2 o'clock tomorrow afternoon in the Universal Chapel, Fifty-second Street and Lexington Avenue.

Born in Valley Falls, Kan., Mr. Dunn received his education at Washburn College, and then worked successively as a deputy postmaster, telegraph operator, train dispatcher, station agent, examiner of agents' accounts, and stenographer. After a brief trial of construction work for Midwestern telephone companies he entered the accounting department of the Kansas City, Fort Scott & Memphis Railway and found his true profession.

He had served as assistant auditor of the Atchison, Topeka & Santa Fe Railway Company and as auditor of the Central of Georgia Railway Company and the Ocean Steamship Company of Savannah. He reorganized the accounting systems of many large lumber, coal, water, hotel and manufacturing companies. While with the Central Railway of Georgia he devised the

first successful system of billing freight through from initial steamship ports to interior railway destinations.

In the World War period Mr. Dunn represented Haskins & Sells, with whom he had been associated since 1902, in directing the work of the Bureau of

Audits of the Alien Property Custodian.

He was chairman of the National Association of C.P.A. Examiners, secretary of the New York State Board of C.P.A. Examiners and chairman of the New York State C.P.A. committee on grievances. He was a life member of the Lake Placid Club and a member of the New York Athletic Club, The American Society of Certified Public Accountants, Accountants' Club of America and the American Arbitration Association."

In addition thereto it should be noted that he held C.P.A. certificates from the States of New York, Ohio, Missouri, Oklahoma, Louisiana,

Texas, Colorado, California, Connecticut, Michigan, Oregon, and Utah. He maintained membership in several State C.P.A. societies. Among the various publications of which he was the author are: *Accounting Inconsistencies and Fallacies*; *Information Needs of Investors for Judgment of Public Utilities*; *Railway Accounting in its Relation to the 20th Section of the Act to Regulate Commerce*; *Accounting Methods for Anthracite Coal Operations*; *Accounting as Related to Administration and Proprietorship*.

When The American Society was or-



HOMER ADAMS DUNN

ganized at Chicago it was felt that the first list of officers should contain representatives from not only all sections of the United States but from all the various types of accountancy practitioner organizations. The office of First Vice-President was not filled by election at the organization meeting but the President was directed to interest Mr. Dunn in accepting the office. The then President and present Secretary, went to New York and had a consultation with Messrs. Sells, Ludlam and Dunn during which the entire theory of The American Society was discussed. At the conclusion Homer accepted the first vice-presidency and until the time of his death was called upon more often by the organization for advice than any other one member. He never failed to respond to any request.

There were two members whom the Society, in its early days, especially desired to honor by election to the presidency, not only because of the amount of work which they had done but by reason of the respect in which they were held by the profession. Both declined, giving as an excuse that they were not then actively engaged in independent practice. Under the set-up of The American Society retiring presidents become members of the Advisory Committee and at the 1928 meeting of The American Society Homer A. Dunn and John B. Tanner were persuaded to become President for a Day in order that they might be so listed.

It was passing strange that recently both Homer and Jack should be taken to hospitals, one in New York and the other in Cincinnati, within a fortnight of each other and under such conditions that in both cases their friends had grave reasons to fear for the final outcome. (The reaction of Jack to medical treatment has been little short of miraculous. Homer was not able to stay the progress of disease.)

In The American Society Mr. Dunn served as Vice-President, State Representative, Director, and President, since which time he had been a member of the Advisory Committee. He was Chairman of the Committee on Relations with State Societies for four years; Chairman of the Committee on Constitution and By-Laws;

member of the Joint Institute-Society Committee, representing The American Society; member of the Committee on Publication; and had been Chairman of the Arbitration Committee since its authorization in 1926.

He served the profession locally through the medium of the New York State Society for many years and when the State law was amended providing for a Grievance Committee to be appointed by the Regents of the University of the State of New York, he was selected as its Chairman and had so served ever since. He had previously served as a member of the State Board of C.P.A. Examiners of New York.

The Secretary was privileged to see Homer twice during his last illness. During the first visit, while he was in the hospital, he directed the conversation to matters relating to The American Society in whose interest he was always alert. The second visit was a week prior to his passing and after he had returned to his apartment. This time, although much weaker, his greatest anxiety was concerning Jack Tanner who he was afraid would endeavor to get out too soon.

Aside from his interest in his profession in his later years he found much enjoyment in furthering the work of the American Arbitration Association and of the Tribune Fresh Air Fund.

A few years ago he proposed and financed the plan under which ten State societies took out memberships in the Arbitration Association.

The day following the funeral the *Herald-Tribune* carried the following statement:

"One gift received yesterday was a memorial to Homer Adams Dunn, whose obituary appeared in the New York papers last Sunday. A group of his friends thought it better to make up a Fresh Air contribution than to add to the flood of flowers which were sent by Mr. Dunn's host of friends. It was a fitting memorial, for Mr. Dunn had for many years been a generous supporter of the Tribune Fund; as he was of many other charities."

The funeral services, conducted by his Masonic Lodge, were held at the Universal Chapel, New York City, attended by a representative group of certified public accountants. Messrs. Kortjohn and Reik, Masons but not members of his lodge, represented the profession in the ritualistic ceremony. The American Society was officially represented by past-presidents Hughes, Upleger and Springer and all New York State Representatives who were in the city. The New York State Society was represented by all of its officers.

Homer Dunn's rugged exterior concealed a kindly heart. An unusually long and varied experience had furnished a background on which he could draw for illustrations to fit any accountancy problem under discussion and enabled him to furnish advice which was often sought by the younger members of the accountancy profession and was always freely and cheerfully given.

He had positive convictions which were stated in what might be termed a super-positive manner and yet that presentation seldom left more than the feeling on the part of those taking part in the discussion that his wide experience permitted him to be more certain in his statements than the average man could possibly be with his more limited viewpoint. From the many letters coming to the office the following is selected, written by an official whose ideas had probably varied from Homer's more often than those of any other one official, as expressing better than any other the views of those who were for years associated with him in professional activities:

"You can hardly appreciate my feelings when I received your notice of June 15 that Homer Dunn had passed into another life.

"The sincerity and drive of the man, to me, were outstanding characteristics, and the disagreements we had on many matters of policy were always softened by the knowledge that Homer's wealth of experience entitled him to privileges in debate accorded no one else. While I grew at times impatient at his tactics, I, nevertheless, formed a deep admiration and sincere regard for the soundness of his

reasoning and the magnanimous qualities of his heart, which he took such pains to hide behind a rough, matter-of-fact exterior.

"At the proper time and to the proper parties, will you please express my sympathy? If there is anything I can do to aid in honoring his memory, please call upon me, as I would like very much to participate in any expression of appreciation of one who has done so much for The American Society and accountancy in general."

Much altruistic labor is needed in the development of any profession. Not all can afford the time or money required. Not all have the ability. Too many do not have the inclination. In a relay race each successive runner must carry the baton with which the first runner started. Homer Dunn was one of the first members of the accountancy profession in this country. He grew up with it and gave it his heartiest support. Who will take up the work which he carried on so successfully? A volunteer in each State where he labored would be a worthy tribute to his memory.

IT'S HARD SOMETIMES

To apologize,
To begin over,
To admit error,
To take advice,
To face a sneer,
To be charitable,
To avoid mistakes,
To keep on trying,
To keep out of a rut,
To obey conscience,
To profit by mistakes,
To forgive and forget,
To think and then act,
To smile in adversity,
To shoulder deserved blame,
To dispute underhandedness,
To make the best of a little,
To subdue an unruly temper,
To recognize the silver lining,
To accept just rebuke gracefully,
To value character above reputation,

BUT IT ALWAYS PAYS.

F. A. A. Bulletin.

TALKING SHOP

A DEPARTMENT CONDUCTED BY LEWIS GLUICK, C.P.A., New York

TRAVEL NOTE

We spent the 16th and 17th of June in New Haven; very busy, very warm and very pleasant. We saw the following C.P.A.'s: Petze, Barr, and K. Sagal. We also saw on display in connection with the Connecticut tercentenary an insurance policy written in 1763, believed to be the oldest written in this country.

Hi Phillips, the syndicated columnist, had a piece on May 15 burlesquing the SEC reports, that was a honey. Space limitations prevent our reprinting it.

Emanuel Saxe, of the CCNY faculty rises to say that his school is just as good, if not better than N.Y.U.; and also makes a good point (anent our paragraph on pages 294/5 in May) that a man who is merely practical is a worse teacher than one who is merely theoretical. He admits that a mixture of the two is needed; the moot point is, in what proportions shall the mixture be?

On May 23 we attended a dinner at the Savoy-Plaza at which Gerard Swope spoke on "Social Security Legislation." We like to hear men who speak without notes; especially when they do it well.

But if Mr. Swope had read a paper, we would have tried to get it for publication in this magazine. A C.P.A. in the audience, whom we recognized, was Hermon F. Bell.

TAXES

How many of you have seen the *Commercial and Financial Chronicle*? What is more pertinent, how many of you read it? In the case of Hutting (32 BTA No. 65), that publication got a fine boost. W. W. Johnston, C.P.A., got a rule fifty decision on this case, which is good to cite on bad debts. Knox Phagan is another C.P.A. who got a rule fifty, which we construe as

a victory (32 BTA No. 57). J. R. Bansley, another C.P.A., got one, too, in 32 BTA No. 59, and we are glad we do not practice where Oklahoma oil leases are so plentiful and complicated.

Before you marry a widow with three children, consider the tax angles, as set forth in the case of Sommers, 32 BTA No. 63. The forty pages of print required to report the cases of the Pierce companies, 32 BTA No. 56, make it the biggest case of the calendar year. Personal holding companies are treated at great length by J. J. Lang, a St. Louis C.P.A., in the May *Tax Magazine*. If you have clients of this type, you must read what he has written. We like the decisions of the 8th Circuit Court of Appeals, affirming 30 BTA 659 and 29 BTA 467 on April 19th. Clever schemes for tax avoidance can be too clever. The highest of our courts construes the "first-in first-out" rule in decisions 582 and 663 handed down on April 29. Better late than never, we note the case of Rhinelander in the U. S. District Court of Eastern Wisconsin. Better than any text book it tells just how good is a "perpetual" inventory. Out of the Insull mess there at last comes something we can grasp. See 32 BTA No. 77 for a brief statement of one of the deals. The case of Palmer, 32 BTA No. 75, will clarify tax liability of stock rights as capital gains. For figuring the value of the rights see Burtchett, *Corporation Finance*, page 491. This is a Harper publication. Chapter XXVL offers 19 pages of especial curiosity to our profession. The case of the Metropolitan Ice Company of Mass. will require no more than 10 minutes to read. From a technical point of view we see merit in the dissent, but equitably we like the decision. Since over \$31,000.00 in taxes is involved we predict an appeal by the Commissioner. If you need any additional data on bank regulation and the need for *independent* audit, see the case of National

Bank of Dillon, Mont. (CCA 9th, May 6). It would seem that bankers need protection against their own high or low finance.

There was once a printer who was even more erudite than the regular lot of this learned craft; but he lacked a sense of humor. So when Mark Twain (or maybe it was some other comedian) deliberately misquoted some Shakespeare, this printer took particular pride in "correcting" it, to the intense dismay of the comedian. We hope that the compositor will take the following exactly as is. It comes to us via a past-president of a State society; and we think it is a real gem.

"Gentlemen:

I am just wondering if you have an accountant in this vicinity, to represent your firm. Would you be interested in a young man, who can furnish you with the very best of references in regards to his character and ability.

Gentleman, I am well know through out the State of—, I am one of the best equiped accountant in this State, having a complete library, and maintain a complete up - to - date Federal, State and Local Tax Service. I am a young man who has no bad habits at all, and do not drink, smoke, chew or gamble in any form, as stated above I have my own Office equipement, and am in a position to handle any kind of detail work, as having been a practicing Public Accountant in this State for the pass fourteen years, on my own account.

I do not know weather you maintain any agency in this State or have any one to represent your Firm, I will be very glad to look after any work for you hear, at any time, now or in the future.

Thanking you in advance for any consideration which you may have to offer me, now or in the future.

I remain with best wishes and personal regards to the firm of —

Yours very truly,

THIS AND THAT

Or, if you prefer, Miscellaneous charges to surplus. Anyhow, we want to answer en masse a lot of queries and comments which have reached us.

The number of inquiries we receive

about what is going on in New York; and how New York does things is gratifying. If New Yorkers took half as much interest in what took place West of the Hudson, there would be less basis for the charge that New Yorkers are narrow minded. As we have said before, whether we like it or not, New York is the financial center of the U. S. if not the world; it has the oldest and largest organization of C.P.A's; and other eyes properly turn there. But the self-satisfaction of too many New Yorkers is detrimental to themselves.

So, having preached our little sermon, let's answer some questions. A great deal of the coldness of the New York meetings is unavoidable, due to their size. A recent meeting which had less than 400 in attendance was looked upon as a flop. The average is over 700. And you can't take a Great Dane in your lap like a Peke. The intimate touches that are found in smaller society meetings are almost impossible to obtain.

On the other hand, Harold Barnett's greeting committee has done wonders in welcoming old and new members, and guests. To a visitor from some society where the secretary knows every member by his first name, and how much he is in arrears, without looking in the book, the sight of beribboned glad-handers is naturally either funny or shocking. And the little tags that are given members to put on their lapels look like a joke when they are not a nuisance. Yet how else can you tell the name of the man sitting next to you? Of course, the type of tag is particularly poor; the paste sticks to the cloth in a way that suggests that the tag maker is in cahoots with the dry-cleaners. By pulling the tags out of the visible index racks the clerks know how many members have attended. Then they add the count of signatures on the guest register, and the total attendance figure would then be perfect if it were not for the pernicious habit of some members slipping by without pulling their tags. We were explaining to several men at the last meeting just why it was necessary "to count noses"; and were brought up sharply when one of them said "Better count mine twice." We certainly had a mortifying moment when

we realized that the man we had unwittingly offended had a Durante. Our profuse apologies.

Most of the N. Y. Society members pay \$25 per annum dues. And outsiders want to know "What do you need all that money for?" If any of them, when in New York, will call at 30 Broad Street and ask for Mr. Brown, Assistant Secretary, they will see where a lot of it goes. It takes clerks to keep accounts and write letters and publish bulletins; and clerks require desks and desks require space and landlords must be paid. We refuse in these pages to enter into the controversy concerning whether *all* this expense is needed. This is a national publication; and we are a strong believer in State rights; and financial privacy. The point is that 2,200 members are a lot of people.

New York is also afflicted with a type of member we have never encountered elsewhere. He joins by mail; and boasts of never attending a meeting. The impersonal size of the meeting is some excuse; but a poor one. We favor the suggestion that membership certificates be issued only to men who personally attend. Then these slackers will have to come to one meeting anyhow.

It strikes us as a very sad thing that less than half of the C.P.A.'s are members of a State society. We can understand perfectly why a man, faced with an unnecessary duplication of national societies, would refuse to join either. But a State is different. The alleged reasons are three:

1. I don't like the crowd running it.
2. I can't afford the dues.
3. I can't afford the time to attend meetings.

Let's dispose of them in reverse order. No man is expected to attend all meetings; a man who attends a majority is doing well. But a man who can't find time to attend at least once a year is a liar. Of course, this does not refer to the small societies which have only annual meetings. The dues present a slightly better excuse. But unless a man is unemployed, or has particularly onerous family obligations, the dues of a State society, even N. Y., should present no insurmountable obstacle. And as for the first reason, it is laughable. Next time you hear it, ask the man who used it,

"Well, who is running it now?" and if he knows even approximately, let him be. But better than 9½ times in ten, it will develop that one man, who was an officer ten years or so ago, was not liked by the non-member. Furthermore, if he doesn't like the way the outfit is managed, the thing to do is join, work and get the votes for a new set of officers.

The real reason, but never alleged, is that the non-joiner is afraid to subscribe to a code of ethics. Once in a while he will go so far as to say that he believes in ethics; and practices them. But he won't promise to be good always. Well, that is human, but no good reason for not joining. We do know of one society's code which goes too far; it leans over backward. Yet if we lived in its jurisdiction, we would join just the same. And now, all you membership committeemen, get busy. Don't wait till the fall to tackle your prospect. Go after him during this summer. He will not be able to say truthfully that he is too busy to talk it over; if he says he has the time, but no money, take his application with a dated check; and if you have pepped yourself up and catch him unawares on a hot day, his sales resistance will be at a low point. After you have him safely in the State fold, give him a space to catch his breath; and then bring him into our American Society. We'll help.

So much for societies. The next is purely personal. Meeting a half dozen strangers who were, miraculously, also regular readers, they unanimously agreed that we didn't look like what they expected. All thought we must be much older: and one was sure we were of "the jolly fat type." In order that no one will be so surprised again, let us say that we are five foot seven vertically; and never have weighed more than 135 net. But in order to avoid too great a shock, we persist in our refusal to publish a picture. If you just must know what we look like, come to the Kansas City convention.

All information is of three kinds. What you never knew; what you knew but forgot; and what you know. We have listed them in their quantitative order. Those who have really been regular customers of this shop may skip the rest of this, because

they know it. For that matter so may the rest of you, but we really would like to have you learn and remember these few facts about the shop. The American Society assumes no responsibility for opinions herein. Those not otherwise tagged are the Shoptalker's own. Statements of fact are obtained from reliable sources, but are not guaranteed. The characters of Oldtimer, the Kid, and the rest of the troupe are entirely fictitious and synthetic. They are used as convenient means of presenting a miscellany of things about which accountants talk when they get together. By this device much good material which would otherwise have to stay off the record, can be presented anonymously for your amusement or edification or both.

And now children, Uncle has told you all the stories he knows tonight; but if you are good he'll tell you some more next month.

THE SHOP TALKERS

"The lack of imagination," said Oldtimer, "is a powerful though neglected reason for many failures in accountancy. That is to say, men who, with the best of education and experience, never achieve high place in the profession or financial success. And I recently had an example in my own staff."

"Tell us about it," said the Kid.

"That's just what I want to do," replied Oldtimer, "though you have enough imagination for two ordinary men."

"And nerve enough for a dozen," put in Blank.

"Never mind," said Oldtimer. "Let me go ahead. On my staff is a man who is a fine one for detail; a steady, plodding type, who can be relied on to take an audit program and carry it out to the letter. Well, he completed an audit of the type we call continuous; and the chief of staff was looking over his working papers. Under 'Bank Reconciliation' he saw 'Who is Violette Brown?'; and then it was OK'd by the auditor, which in our procedure, meant that he had found the answer and was satisfied. But the chief was curious; so he asked 'Well, who is Violette?' 'Oh,' replied our man 'She's a girl friend of the cashier; not employed at present; and was

visiting the cashier one day; and to accommodate her friend, who was busy, she went to the bank to cash a petty-cash check. I didn't recognize the name endorsed, so I made the note.'

"That was O.K.," said the chief, "but why don't you mention it in your report?" "It was unimportant, as long as the money was received. I know the cashier should have gone herself; but she is a good girl; and I don't think it is worth writing into an audit report; just so it doesn't become a habit." "Well, don't you see anything else?" asked the chief. "What is there to see?" asked the man. He was clearly bewildered. And seemed even more so when the chief said "Look at your insurance schedule." He studied that for several minutes and then slowly a light dawned on his face. "You mean the hold-up?" he inquired.

"Exactly," said the chief. "If the volunteer, not being a regular employee, no matter how honest, had been held up, the insurance would have been no good. And you should have seen that."

"That is a curious incident," said Philo. "And I'm glad to have heard it, because in my seventeen years of public accounting I've never seen or heard the like. But I beg to differ as to the imaginative quality, or lack thereof. I grant that an auditor should have some imagination. But in this case, it had nothing to do with it. A man who had examined the insurance policies and made up the schedule should have *known* instantly that there was a close and reportable connection between the hold-up policy and the good-natured girl friend. It was lack of intelligence, not imagination, that your man displayed."

"Maybe so," said Oldtimer. "But how about my chief of staff? He had not worked on the job, yet he saw the connection."

"That's why he's chief of staff," replied Philo.

"Yes," said the Kid "but I'll bet if that dame had some plain name like Mary he never would have asked about her. That's where the imagination came in."

And even Philo joined in admitting that the Kid was right.

Wee Bits on Accountancy

REGULARLY CONTRIBUTED BY LOUIS S. GOLDBERG, C.P.A., Sioux City, Iowa

In Philosophic Mood

"Breathes there the man with soul so dead" who never has felt the philosophic mood? Assuredly the accountant, in common with his other professional brethren, never would plead guilty to that negative charge. The mood may come in moments of ecstasy or in moments of despair; to some, it may come in the common run of the day's events.

No small segment of the great field of life do we propose to conquer now; rather shall we essay it all. There comes to all at times the provoking inquiry, What is the purpose of the game? What is life all about, anyhow? And now and then, you will find the rare soul who, with transcendent courage, will venture an answer to the query.

Dr. E. S. Ames, writing in the January number of the University of Chicago magazine, announces with bold simplicity:

"What, then, is the meaning of life? My answer is that the end of life is to grow . . . to grow in knowledge, in achievement, and

in the enjoyment of growth itself."

There we have the doctrine, all in 24 plain words, with no equivocation, with no reservation. Is there any professional mind that will not thrill to that message, with understanding response? Is there any professional soul to which that stirring pronouncement will not bring renewed inspiration? Is it not a piece of that harmonious orchestration from which comes that equally simple message of the late Justice Oliver Wendell Holmes: "This is the best of life . . . the job well done."

In that last phrase by Dr. Ames dwells the essence of the true professional spirit: "in the enjoyment of growth itself." To strive for the pure joy of the chase, to labor in the pathways of professional progress, to contribute our mite to its advancement, and to derive a large measure of our reward in just the doing . . . that is the enjoyment of growth itself, that is the best of life.

Questions *and* Answers Department

EDITOR, STEPHEN GILMAN, C.P.A., Educational Director
International Accountants Society, Inc.

Solution to Problem 2 of November, 1934, Examination Service of The American Society of Certified Public Accountants, published on pages 116-118 of the February, 1935, issue.

In laying out the working trial balance for this solution, the C.P.A. candidate may find the use of three separate sheets (one sheet for each fund) very con-

venient. These three sheets, upon completion, should be arranged so that the examiner will have no difficulty in following the solution.

The working trial balance shown herewith is begun by listing the accounts and balances as given in the problem. Other accounts are added as found necessary in entering the year's transactions.

The preparation of the balance sheets is principally a matter of arranging the closing (June 30, 1934) balances, in one of the several forms employed for this purpose. In this solution the account form of balance sheet has been used mainly for the reason that it brings together on the left-hand side of the statement all of the assets for the three fund groups and on the right-hand side all of the liabilities and net worth.

The entries in the transactions columns are keyed to correspond with the transaction numbers, the letters, a, b, c, etc., being employed in addition to indicate corresponding debits and credits where there are several transactions under a single number. The key (X) is used in the balancing entry under the General Fund, this entry not resulting from a numbered transaction.

City of Plainville Working Trial Balance June 30, 1934						
<i>General Fund</i>	<i>Balances July 1, 1933</i>		<i>Transactions, July 1, 1933-June 30, 1934</i>		<i>Balances June 30, 1934</i>	
	<i>Debits</i>	<i>Credits</i>	<i>Debits</i>	<i>Credits</i>	<i>Debits</i>	<i>Credits</i>
Cash	\$ 5,000		(5) \$84,000 (11) 500 (12a) 18,600	(7) \$ 2,000 (10) 500 (14b) 90,000 (14g) 2,250 (15) 10,280	\$ 3,070 11,000 400 1,500	
Taxes Receivable	10,000		(1) 85,000	(5) 84,000		
Accounts Receivable ...	100		(11) 300			
Due from Other Funds..	1,000		(10) 500			
Accounts Payable		\$ 300		(18) 1,200		\$ 1,500
Notes Payable		500				500
Matured Bonds and Interest		15,000	(15) 10,280			4,720
Surplus:						
Balance, July 1, 1933..		300				300
Excess of Revenues Over Expenditures (current year)			(7) 2,000	(11) 800 (12a) 3,600 (x) 3,000		5,400
Appropriations			(3) 2,550 (14b) 90,000 (14g) 2,250 (18) 2,200 (x) 3,000	(1) 85,000 (2) 15,000		
Estimated Miscellaneous Revenue			(2) 15,000	(12a) 15,000		
Reserve for Uncollectible Taxes				(3) 2,550		2,550
Reserve for Cash in Closed Bank				(7) 2,000		2,000
Cash in Closed Bank...			(7) 2,000		2,000	
Encumbrances				(18) 1,000		1,000
Totals	<u>\$16,100</u>	<u>\$16,100</u>			<u>\$17,970</u>	<u>\$17,970</u>

Special Assessment Fund

Cash—For Construction	\$ 6,000	(4)	\$50,000	(14a)	\$ 3,000	
		(10)	500	(14c)	30,000	
		(13d)	3,500			\$27,000
Cash—For Bonds and Interest	2,000	(12b)	27,800	(16)	26,750	
		(14g)	2,250			5,300
Assessments Receivable.	10,000	(4)	50,000	(12b)	26,000	
				(14g)	4,500	29,500
Work in Progress.....	4,000	(14c)	5,000	(19)	32,000	
		(17)	35,000			12,000
Accounts Payable	\$ 300					\$ 300
Contracts Payable	8,500	(14c)	25,000	(17)	35,000	18,500
Notes Payable	500	(14a)	3,000	(13d)	3,500	1,000
Bonded Debt	7,000	(16)	25,000	(4)	50,000	32,000
Due to Other Funds....	500			(10)	500	1,000
Appropriations	4,000	(19)	32,000	(4)	50,000	22,000
Reserve for Rebates....	500					500
Surplus:						
Balance, July 1, 1933..	700					700
Excess of Revenues Over Expenditures (current year)		(16)	1,750	(12b)	1,800	50
Due from City on Assessment Improvements		(14g)	2,250			2,250
Totals	\$22,000		\$22,000			\$76,050
						\$76,050

Trust Fund

Expendable Cash	\$ 500	(13a)	\$ 500	(14d)	\$ 8,500	
		(13b)	9,000	(14e)	2,000	
		(13c)	1,200			
		(14e)	2,050			\$ 2,750
Permanent Cash	200	(9)	1,500	(14f)	500	1,200
Loans Receivables	700	(14f)	500			1,200
Investments	44,600			(14e)	2,000	42,600
Expendable Trusts:						
Pension Funds	\$15,000	(14e)	2,000	(14e)	50	\$13,050
Taxes Levied for Other Civil Divisions—Uncollected..		(13b)	9,000	(6)	10,000	1,000
Taxes Levied for Other Civil Divisions—Collected		(14d)	8,500	(13b)	9,000	500
Contractors' Deposits..				(13a)	500	500
Endowment Fund Interest				(13c)	1,200	1,200
Permanent Trusts:						
Endowments	30,000					30,000
Revolving Loan Fund	1,000					1,000
Loan Fund—City Employees				(9)	1,500	1,500
Taxes Receivable		(6)	10,000	(13b)	9,000	1,000
Totals	\$46,000		\$46,000			\$48,750
						\$48,750

City of Plainville
Balance Sheets
June 30, 1934

ASSETS		LIABILITIES AND NET WORTH	
General Fund Assets:		General Fund Liabilities and Net Worth:	
Cash	\$ 3,070	Notes Payable	\$ 500
Taxes Receivable	\$11,000	Accounts Payable	1,500
Less—Reserve for Uncollectible Taxes	2,550	Matured Bonds and Interest Payable	4,720
	8,450	Encumbrances	1,000
Accounts Receivable	400	Total Liabilities	\$ 7,720
Due from Other Funds.....	1,500		
Cash in Closed Bank....	\$ 2,000	Surplus:	
Less—Reserve for Cash in Closed Bank.....	2,000	Balance, July 1, 1933..	\$ 300
	Excess of Revenues Over Expenditures (current year)	5,400
		Surplus, June 30, 1934	5,700

		Total General Fund Liabilities and Net Worth	\$13,420
			=====
		Special Assessment Fund Liabilities and Net Worth:	
Total General Fund Assets..	\$13,420	Contracts Payable	\$18,500
	=====	Notes Payable	1,000
Special Assessment Fund Assets:		Accounts Payable	300
Cash—For Construction	\$27,000	Bonded Debt	32,000
Cash—For Bonds and Interest..	5,300	Due to Other Funds....	1,000
Assessments Receivable	29,500	Total Liabilities	\$52,800
Work in Progress	12,000	Reserve for Rebates....	500
Due from City on Assessment Improvements	2,250		
		Surplus:	
		Appropriations	\$22,000
		Unappropriated Surplus:	
		Balance, July 1, 1933.....	\$ 700
		Excess of Revenues Over Expenditures (current year)..	50

			750

			22,750

		Total Special Assessment Fund Liabilities and Net Worth	\$76,050
			=====
Total Special Assessment Fund Assets	\$76,050		
	=====		

Trust Fund Assets:		Trust Fund Liabilities:	
Cash—Expendable	\$ 2,750	Expendable Trusts:	
Cash—Permanent	1,200	Pension Funds	\$13,050
Investments	42,600	Endowment Fund Interest	1,200
Taxes Receivable Levied for		Contractors' Deposits..	500
Other Civil Divisions.....	1,000	Taxes Levied for Other	
Loans Receivable	1,200	Civil Divisions:	
		Collected \$	500
		Uncollected ..	1,000
			1,500
		Total Liabilities...	\$16,250
		Permanent Trusts:	
		Endowments	\$30,000
		Revolving Loan Fund.	1,000
		Loan Fund—City Employees	1,500
			32,500
Total Trust Fund Assets....		Total Trust Fund Liabilities	
\$48,750		\$48,750	

STATE SOCIETY NEWS

CALIFORNIA

At a meeting of the Los Angeles Chapter of the California State Society of Certified Public Accountants, held on the evening of June 4, 1935, the following officers and directors were elected: President, J. B. Scholefield; Vice-President, James K. Gregory; Secretary-Treasurer, A. R. Cooper; Directors, W. J. Palethorpe and Oscar Moss.

The Los Angeles Chapter undertakes the responsibility of securing the lists for the telephone directory for the section headed "Certified Public Accountants." While this involves some trouble it nevertheless assures the omission in the listing of those who ought not to be so recorded. (Other chapters or State societies might well follow suit.)

The California State Society is, by means of a questionnaire, securing the opinion of its members as to whether meetings should be held in January and/or February. (Last year the Tulsa, Okla-

homa Chapter, which has weekly meetings except in the weeks of the State Society meeting, reported the largest attendance for the year during the busy season. Seemingly the boys felt the necessity of getting out of the strenuous grind which the busy season lays upon the active practitioner.)

J. C. Thompson, member of The American Society Committee on Cooperation with Trade Groups, has issued a letter to all of the members of the California State Society outlining the benefits which might arise to the profession as the result of a better understanding of their mutual problems. Even though the NRA is legislated out of existence as originally established, the trade association will continue to increase its usefulness to business in general.

DISTRICT OF COLUMBIA

The annual meeting of the D. C. Institute of Certified Public Accountants was held Thursday evening, June 27.

The dinner at Harvey's Restaurant brought out the largest recorded attend-

ance in the history of the Institute. The speaker of the evening was William C. Heaton, President of The American Society, who spoke on "The Cultural Background of Certified Public Accountants." The report of retiring President Graham showed an advancement during the year just closed. After discussion at two meetings, the Board of Directors were authorized to prepare the final rewording of the Precepts of Professional Conduct and they were adopted by the Institute. Various committee reports were presented and the election resulted as follows: President, Harold C. Anderson; Vice-President, Harold S. Roberts; Secretary-Treasurer, John Berg. Raymond M. Florance was elected to the Board of Governors.

FLORIDA

The annual meeting of the Florida Institute of Accountants was held in the San Juan Hotel, Orlando, June 21 and 22, 1935.

On Friday morning following invocation, address of welcome by Mayor Estes and response by B. E. James of Jacksonville, reports of officers and committees, there were round table discussions on "Publicity for the Profession," led by C. K. Milligan, "The F.I.A. Bulletin," led by P. W. Fisher, "The Mechanics of Report Writing," led by S. George Hay, and "Competitive Bidding on Municipal Engagements," led by E. R. Sheldon.

There was a bridge luncheon for the ladies at Perrydell Tea Room while the members had luncheon at Sharkey's with the compliments of "Bill" Sharkey.

In the afternoon George P. Ellis of Chicago, former president of The American Society, addressed the meeting on the subject of "The Accountant's Responsibility." Following discussion on Mr. Ellis' address round table discussions were continued on "Should the Institute Suggest Names for Appointment to the State Board of Accountancy?" led by Lee C. Shepherd, "Circular No. 230," led by Geo. H. Ford, "Problems—Income Tax and Others," led by Harry Goldstein, "Should Reports be Addressed to an Official, to a Committee, to the Board of Directors, or to the Company Itself?" led by Hugh Purvis, "Can the Difficulties Underlying Competitive

Bidding Be Better Overcome Through Pronouncements by the State Boards and/or Societies?" led by W. F. Divine.

In the evening there was a supper dance with entertainment at the Orlando Country Club.

The Saturday morning session opened with a report from the State Board of Accountancy by Chairman W. F. Divine, following which there was an interesting address by Dr. Paul W. Bruton, attorney, Division of Legislation and Regulations, Internal Revenue Department, Washington, D. C.

The annual golf tournament was held in the afternoon at the Orlando Country Club.

MARYLAND

The Maryland Association of Certified Public Accountants held its annual meeting at the Emerson Hotel in Baltimore on Tuesday, June 11, 1935, at which time the following officers and directors were elected: President, Frank A. Shallenberger; Vice-President, Edward G. Shipley; Secretary, Harold N. House; Treasurer, James L. Benson; Auditor, Philip M. Osborne; Directors, C. C. Croggon, A. L. Tinsley; J. L. McKewen, E. R. Stewart.

MASSACHUSETTS

The thirty-fifth annual meeting of the Massachusetts Society of Certified Public Accountants, Inc., was held on Monday, May 27, 1935, at the Salem Country Club, Peabody.

Annual reports of officers and committees were presented, following which officers were elected as follows: President, Homer N. Sweet; Vice-President, Earle M. French; Secretary, Arthur W. Yardley; Treasurer, John F. Clarke; Executive Committee, the officers and Anthony Jaugreguy, Phillip Saunders, Jr., Norman H. S. Vincent and Auditor, Louis Kremer.

The society voted to appoint a special committee to study and report upon the proposition of extending its activities in such a way as to be of more direct value to its members located outside of Boston.

During the day there was a golf tournament with about 75 players. In the evening dinner was served to 280 members and

guests. Following dinner F. R. Carnegie Steele on behalf of his firm presented to the society a beautiful silver cup to be known as "The Patterson, Teele & Dennis Cup," for annual competition in golf. The winner of the cup this year was William P. Fuller.

Bridge and dancing were enjoyed throughout the evening.

MICHIGAN

The annual meeting of the Michigan Association of Certified Public Accountants was held on Thursday evening, June 6, 1935, at the Savoyard Club, Detroit. Officers were elected as follows: President, W. B. Isenberg; Vice-President, Louis Schneider; Treasurer, E. J. Barr; Secretary, W. H. Ball; Directors, W. A. Paton, Roland B. Keays and J. W. Bartrop.

MISSISSIPPI

The Mississippi Society of Certified Public Accountants held its annual meeting at Meridian on May 25, 1935, with an attendance of 80% of total membership.

H. W. Hennegin, C.P.A., of Little Rock, Arkansas, was guest speaker. During the course of the business session the following resolution was unanimously adopted:

"BE IT RESOLVED THAT THE practice of competitive bidding be and is hereby declared to be against the good morals of the practice of public accounting, and that competitive bidding by or between members of this Society for professional engagements is a violation of the Code of Ethics of the Mississippi Society of Certified Public Accountants."

The following officers and members of the Board of Governors were elected for the coming year: President, Stewart J. Parker of Jackson; Vice-President, T. E. Lott, Columbus; D. D. Quin, Secretary-Treasurer, Jackson; Members of Board of Governors, C. E. Powell of Greenwood; Thos. E. Walsh of Greenville; F. J. Block of Laurel; Robt. H. Crook of Meridian, and the officers.

NEW MEXICO

The annual meeting of the New Mexico Society of Certified Public Accountants was held at Albuquerque on May 25, 1935,

with an attendance of all but two members.

At the conclusion of the business meeting a banquet was held at the El Fidel Hotel.

Officers and directors elected were as follows: President, J. Bryan Stephenson of Albuquerque; Vice-President, R. D. Jones of Roswell; Secretary-Treasurer, E. Harold Bradley of Albuquerque; Directors, the above officers and C. Lester Linder and Lon M. Fletcher of Albuquerque.

OHIO

The annual meeting of the Ohio Society of Certified Public Accountants will be held at Dayton September 26, 27 and 28, 1935, with headquarters at the Dayton Biltmore Hotel and the Miami Valley Golf Club.

WASHINGTON

The thirteenth annual conference of Pacific Northwest Certified Public Accountants was held at the Washington Athletic Club, Seattle, Washington, June 21 and 22, 1935.

This was the most successful joint meeting yet held by the Pacific Northwest accountants, approximately 80 members of the Washington and Oregon societies being registered and 160 members and guests being present at the banquet.

Friday morning was given over to reception and registration. Don S. Griffith, President of the Washington Society, was Chairman of the Friday afternoon session. After an address of welcome by Charles L. Smith, Mayor of Seattle, four papers were presented, each being followed by discussion. They were: "Accounting Affairs Nationally," by Samuel F. Racine of Seattle, with H. W. McIntosh of Portland leading the discussion; "The Younger C.P.A. Problem, Private vs. Public Practice," by Harry Moore of Seattle, discussion being led by Paul Janney of Portland; "Relation of Accountant and the Lawyer," by Thomas N. Fowler, Seattle attorney; "Municipal Accounting," by Harry W. Carroll, City Comptroller of Seattle, with I. D. Wood of Portland leading the discussion.

The banquet was held Friday evening after which there was entertainment and dancing.

Pearce C. Davis, President of the Oregon State Society, was Chairman of the Saturday morning session.

Professor C. Lyle Kelly of Portland presented a very interesting paper on "Income Tax Law Revision Problems," with John E. Meals of Seattle leader of the discussion; M. D. Wells of Portland presented a paper on "Audits of Local Governmental Units," Marshall Crutcher of Seattle leading the discussion; William Whitfield of Portland spoke on "Training Junior Accountants," and "Extra Professional Activities of Accountants," was the subject of a paper presented by Albert Niemi.

The golf tournament was held on Satur-

day afternoon at the Olympic Golf and Country Club.

On Friday morning the ladies, under the chairmanship of Mrs. C. S. Cowan, were taken for a cruise on Puget Sound, luncheon being served aboard the Yacht Cadrew. On Saturday they were entertained at luncheon at the Women's University Club.

The following officers and directors of the Spokane Chapter of the Washington Society have been elected for the coming year: President, R. J. Wortman; Vice-President, Fred Siegel; Secretary-Treasurer, Howard S. Bell; Directors, E. C. Daniels and John V. McDonald.

C. P. A. Examination Questions

May, 1935

Accounting Theory

QUESTION 1:

In the prospectus of a short-term note issue you find a statement reading, "net profit before any deduction for interest and before providing for depreciation has averaged for the last five years two and one-half times the interest requirements of this issue presently to be outstanding." If a prospective investor should ask you to discuss with him the meaning of this statement, what would you tell him?

QUESTION 2:

A certain manufacturing enterprise prior to the depression enjoyed a working-capital ratio of approximately 2 to 1. Now, with a greatly reduced volume and despite the payment of dividends throughout the depression from surplus previously accumulated the ratio has risen to nearly 10 to 1. Explain how this apparent paradox may exist.

QUESTION 3:

Is gain from the repurchase and resale by a corporation of its own shares of capital stock a proper addition to earned surplus? Explain.

The Service of Examination questions conducted by The American Society furnishes practically twice as many questions in Theory, Auditing, Commercial Law and Economics and Public Finance as could be used by any State Board for a four-hour examination period, and twice as many problems in Practical Accounting as would be required for two examination periods of four to five hours each. A Board using the service makes its own selections and adds any special questions or problems which it desires. The questions in Accounting Theory follow.

QUESTION 4:

A music publisher has charged the cost of plates (from which the music is printed) to a capital-asset account which he depreciates at the rate of 5% annually. The depreciated book value of plates has risen each year notwithstanding a more or less constant volume of sales and a rather consistent book net profit. You learn that many of the published numbers sell for years, while others have a life of only a few weeks and that any forecast of future sales of publications would be impossible. Outline a depreciation policy which you believe the publisher should adopt in preference to the one now in force.

QUESTION 5:

What general principles should be observed in the valuation of investments (an asset)?

QUESTION 6:

X company owns five manufacturing plants, one of which has been completely shut down for more than a year. Should depreciation be taken on this plant and, if so, how should it be reflected in the income or surplus accounts?

QUESTION 7:

Under what circumstances is it permissible to charge repairs to a depreciation reserve?

QUESTION 8:

Assume that a manufacturing company operated at full capacity in 1933, and that the ratio of overhead to direct labor was 125%. In 1934, the company operates at less than capacity, and as a result the ratio is increased to 200%. Disregarding other factors which might affect your decision, state your opinion as to the rate of overhead which it would be proper to use in valuing the inventory at the close of 1934.

QUESTION 9:

A company has always followed the practice of capitalizing expenditures for patents and amortizing them over seventeen years. The Board of Directors desires to write off the patents by a charge to capital surplus. What would be your attitude toward this action, and what policies would you advise the company to adopt in their accounting in connection with subsequent expenditures for patents?

QUESTION 10:

In preparing consolidated statements—

- a. What part of the surplus of a subsidiary company may be taken up as earned surplus?
- b. How should dividends on preferred stock of a subsidiary in the hands of the public be treated in the consolidated income account?
- c. If a company owns 95% of the stock of a company which sustained a loss of \$100,000 in 1934, what loss should be reflected in the consolidated income account?

QUESTION 11:

What treatment should be accorded intercompany profits in inventories?

QUESTION 12:

If a company filed a Federal capital-stock tax return in 1934 assigning a value of \$8,000,000 to its capital stock, had a net taxable income for 1934 of \$1,500,000, and paid out \$200,000 in dividends during the year, what proportion of the income, if any, will be subject to the excess-profits tax?

QUESTION 13:

What are the usually accepted rules for converting a balance sheet and income account stated in foreign currency into dollars?

QUESTION 14:

By the terms of a trust indenture, a company is required to deposit \$100,000 annually on April 1, in a sinking fund for the retirement of funded debt. In preparing a balance sheet as at December 31, what, if any, effect does this provision have on the statement?

QUESTION 15:

A company leases a number of retail stores for a period of twenty years at a fixed rental, with the provision that the store properties may be purchased by it at \$1.00 each upon expiration of the lease. At the time of entering into the lease agreement, what entries should be made by the lessee?

QUESTION 16:

Discuss the probable significance of the following note accompanying the income statement appearing in a recent report of the American Radiator and Standard Sanitary Corporation:

Increase in valuation of fixed assets of foreign affiliated companies if calculated at rates of exchange current December 31, 1934, but not included in income or surplus, \$6,923,815.

QUESTION 17:

What is the significance of the term "going value" when applied to industrial companies?

QUESTION 18:

M. Company commenced operations July 1, 1934, with an authorized and subscribed capital of \$200,000, one half paid in by July 5, 1934. No further demands have been made on subscribers and at December 31, 1934 you find that the \$100,000 paid in in cash is probably ample for the present scale of the company's operations. Stock certificates have been issued in the amount of the \$100,000 paid in. What are your suggestions for reflecting the unpaid subscriptions on the balance sheet?

QUESTION 19:

A "discounts lost" account appears among the expense accounts of a manufacturing company. Explain the significance and use of such an account.

QUESTION 20:

Distinguish between the terms "consolidated balance sheet," "consolidating balance sheet," and "combined balance sheet."

QUESTION 21:

What is the tax-cost basis of property donated, after December 31, 1920, to a corporation by a principal stockholder as paid-in surplus?

QUESTION 22:

State the restrictions made in the 1934 Revenue Act upon the filing of consolidated corporation income-tax returns.

QUESTION 23:

How large a percentage of the selling price may one receive in the case of a realty sale, or a casual sale of personal property made in 1934, and still be permitted to report the profit for income-tax purposes on an installment basis?

QUESTION 24:

A client sold several blocks of securities during 1934. These securities had been received as gifts from the client's parents at various dates since December 31, 1920. Several items had been held by the parents since March 1, 1913.

(a) What information would be required for the purpose of computing profit or loss?

(b) How does the Revenue Act of 1934 limit losses resulting from these sales?

QUESTION 25:

Explain the provisions of the Revenue Act of 1934 governing computation of gain or loss resulting to the distributee from distributions in liquidation of a corporation.

Notes

The New York papers of June 17 carried the news that William R. Donaldson had resigned as Deputy Controller of the City of New York. Donaldson is a member of the firm of Miller, Donaldson and Company, Certified Public Accountants, and has served as Deputy by appointment under three controllers and under two distinctly different political administrations.

During the time of the second appointment he began a projected reorganization of the accounting system and in his appointment by the third controller, he only agreed to remain until the work had been completed.

He was recently elected Secretary of the New York State Society of Certified Public Accountants, for during his by-play into political preferment he retained his professional interests and connections. He has just been elected one of the New York State Representatives in The American Society.

J. F. D. Rohrback, C.P.A., recently prepared an extensive cost accounting formula for the calculation of costs of woven underwear and system of reports and records for the Underwear Institute.

Robert Pierce, C.P.A., of Detroit, was elected president of the Detroit Chapter of N.A.C.A. at their May meeting.

The New York *Times* for Sunday, May 12, contained a helpful article by Albin D. Strandberg, C.P.A., in which he discussed some of the difficulties confronting the real estate developer in view of the various governmental regulations and restrictions which had been recently inaugurated.

Announcements

Alvin C. Hirsch, C.P.A., announces the removal of his office to 11 Park Place, New York City.

H. C. Goettsche & Co., Certified Public Accountants, announce the removal of their offices to Suite 548-554, 221 North LaSalle Street, Chicago, Illinois.

Spradling, Carter and Jordan announce the admission of Merlin M. Bailey, C.P.A., Wells V. Bishop, C.P.A., Floyd H. Kirlin, C.P.A., and William H. Walker, C.P.A., to general partnership in the firm which will hereafter be known as Spradling, Carter and Jordan Associates, Certified Public Accountants, 307-14 Peoples Bank Building, Indianapolis, Indiana.

Louis Summers, C.P.A., announces the removal of his offices to 152 West 42nd Street, New York City.

James Henderson Waugh, Philip A. Brenner, C.P.A. and LL.B., and Harvey Alcott, C.P.A., announce the formation of the firm of Waugh, Brenner & Alcott, Accountants and Tax Consultants, with offices at 11 West 42nd Street, Suite 790, New York City.

Daniel H. Bender, C.P.A., announces the opening of an office at 150 Broadway, New York City.

Fisch & Strassman, Certified Public Accountants, announce the removal of their offices to 44 Court Street, Brooklyn, New York.

Schneider & Walter, Accountants and Auditors, 3503 Barlum Tower, Detroit, Michigan, announce the association of Leo A. Berry, C.P.A., with the firm.

William B. Weinberger, C.P.A., announces the removal of his office to the Knickerbocker Building, 152 West 42nd Street, New York City.

Smith, Ellingson, Schuldes Company, Certified Public Accountants, at Green Bay, Wisconsin, announce the opening of an office at Wausau, Wisconsin, where they have taken over the practice of R. W. Romack, C.P.A. G. M. Ellingson, C.P.A., will have charge of the Wausau office.

Councilor and Buchanan, Certified Public Accountants, Tower Building, Washington, D. C., announce the opening of an office in the Jefferson Building, Greensboro, North Carolina, under the resident management of Frank C. Sproul, C.P.A. The firm also has an office at 110 East 42nd Street, New York City, and associate offices in all other principal cities of the United States and London, England.

Leon E. Williams, C.P.A., announces that George Huling, C.P.A., has become associated with him and that his offices are now located at 2 Wall Street, New York City.

Patrick F. Crowley & Co. announce the removal of their offices to rooms 603-609 Security Trust Building, Lynn, Massachusetts.

Herbert F. Baker, C.P.A., announces the opening of offices for the general practice of accounting in the Underwood Building, 525 Market Street, San Francisco, California.

Benner, Mayors & Company, Certified Public Accountants, announce the removal of their office to Suite 608-9 Louderman Building, 317 North Eleventh Street, St. Louis, Missouri.

J. W. Hanks, C.P.A., C. R. McGee and K. N. Boden announce their withdrawal from Conda J. Ham Audit Company and the organization of the partnership of Hanks, McGee and Boden, with offices at 718 Corbett Building, Portland, Oregon.

Sam M. Weiner, C.P.A., announces the removal of his offices to Suite 1206 Taft Building, 1680 North Vine Street, Hollywood, California.

Walter G. Fatchett, C.P.A., announces the removal of his offices to 703 Pence Building, Minneapolis, Minnesota.

Ornstein, Rifkin Co., Certified Public Accountants, announce the removal of their offices to 25 West 44th Street, New York City.

State Societies



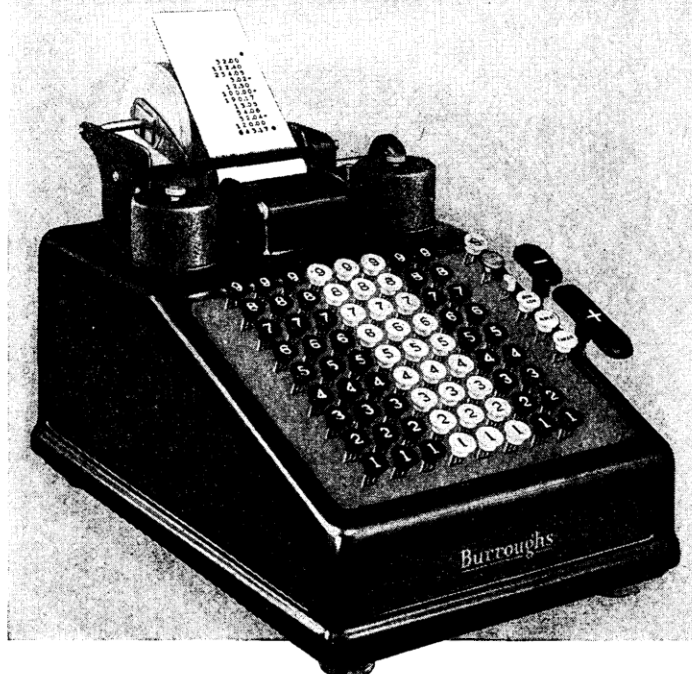
WE shall continue to emphasize in each issue the desirability of all C.P.A.'s affiliating themselves with their state organizations as well as with The American Society. It has oftentimes been truthfully said that "a chain is no stronger than its weakest link." Any national organization basing its membership on the holding of a state-granted certificate must necessarily, as time goes on, find its greatest source of strength in the development of the state societies. That has been especially true of the American Medical Association. While now membership is obtainable in The American Society as an individual, we hope that we shall be able to require membership in The American Society to be obtained through a state society in a much shorter space of time than it took the American Medical Society to be able to adhere to that requirement.

FROM: THE CERTIFIED PUBLIC ACCOUNTANT Vol. 1, No. 3,
March, 1922

Burroughs

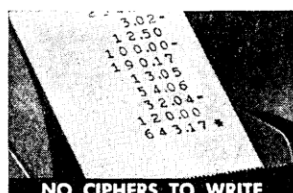
SIMPLER..FASTER

ELIMINATES NEEDLESS MOTIONS



Try this new Burroughs. You will like its speed . . . its simplicity . . . its ease of operation. Watch it handle almost one-third of the average work automatically . . . see how much easier and faster you can list and add amounts when you take advantage of the short cuts offered by the full visible keyboard. Remember, too, these important features are offered in more than 90 different models at surprisingly low prices.

BURROUGHS ADDING MACHINE COMPANY
DETROIT, MICHIGAN



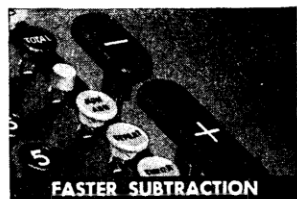
NO CIPHERS TO WRITE

Prints ciphers automatically. Thus, almost one-third of the work is done without touching a key.



SEVERAL KEYS AT ONCE

You touch 4.67 with one stroke—not three. You touch 5,870.00 with one stroke—not six!



FASTER SUBTRACTION

To subtract, touch the subtract bar. To add, touch the adding bar. It's just that simple.



QUICKER TOTALS

To take a total, touch the total key. This single motion—not two or three—prints the total.

BURROUGHS ADDING MACHINES

ADD • SUBTRACT • MULTIPLY

ACCOUNTING AND CALCULATING MACHINES • TYPEWRITERS • CASH REGISTERS • POSTURE CHAIRS

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

20 Cents

The

August, 1935

CERTIFIED PUBLIC ACCOUNTANT

Official Organ of The American Society of Certified Public Accountants

The Accountants Publishing Co.

In This Issue

	PAGE
<i>Loyalty</i> —WILLIAM C. HEATON	451
<i>Five Maxims</i>	452
<i>Directors 1935-36</i>	453
<i>Today</i> —JOHN T. MADDEN	454
<i>Accounting Organizations</i> —D. W. SPRINGER	457
<i>Constitutionality</i>	461
<i>Seen in Published Financial Statements</i> —W. T. SUNLEY....	462
<i>Accounting for Cash Relief Expenditures</i> HOWARD C. BECK, JR.	471
<i>Natural Aptitudes</i>	473
<i>The Lobbyist Bill</i> —The American Bar Association.....	474
The American Society	481
<i>The Credit Man and the Accountant</i>	485
<i>Present Trends of Municipal Accounting</i> —H. A. HARRISON..	486
<i>Talking Shop</i> —LEWIS GLUICK	488
<i>County Auditing and Bookkeeping</i> —GEORGE MORRIS.....	491
<i>Book Reviews</i>	492
<i>Wee Bits on Accountancy</i> —LOUIS S. GOLDBERG	494
<i>Kansas City</i>	494
<i>Questions and Answers Department</i> —STEPHEN GILMAN....	496
<i>State Society News</i>	501
<i>State Board News</i>	503
<i>C.P.A. Examination Questions, Practical Accounting, May, 1935</i>	504
<i>Florida C.P.A. Law</i>	508
<i>N. A. C. A.</i>	510
<i>Announcements</i>	511
<i>Kansas City Program</i>	513

To those who plan to take the next C.P.A. examination

IN addition to its regular Course, the International Accountants Society, Inc., offers a special Coaching Course for Accountants who are planning to take the C.P.A. Examination.

This Course will be supplied only to those who are already competent accountants, as no attempt is made to teach general accounting in this course. The instruction is pointed directly at the C.P.A. Examination.

Something more than a knowledge of accounting is necessary to insure success in the examination room.

Solving examination problems is vastly different from the usual work of making

Particularly noteworthy features of the training are:

- 100 problems in Practical Accounting with solutions and comments
- 100 questions and answers in Accounting Law
- 100 questions and answers in Auditing
- 100 questions and answers in Theory of Accounts

Elaborate explanations and comments that include, in addition to the finished statements or solutions, such items as suggestions for "Notes to the Examiner," working sheets, side calculations, use of proper terminology, and discussions of authoritative opinions.

Problems and questions (1) actually used in a C. P. A. or an A. I. A. examination, or (2) specially prepared to train the candidate in handling certain points likely to be encountered in the examination.

Personal correction, criticism, and grading of every examination paper by a Certified Public Accountant who has himself passed the C. P. A. examination. There are sixteen such Certified Public Accountants on the Active Faculty of the International Accountants Society, Inc.

audits, installing systems, or conducting investigations. Many men with little or no practical experience can solve C. P. A. problems readily—many others with years of experience flounder pitifully in the examination room. WHY? The candidate is required to work at top speed. He must work with limited information. He has to construct definitions. Very often it is necessary for him to use unusual working sheets.

The C. P. A. Coaching Course given by the International Accountants Society, Inc., prepares you to meet such conditions. The fee is \$42, and the text consists of twenty lessons.

A BOOKLET, "How to Prepare for the C.P.A. Examination," is available for those who are interested. For a free copy, just write your name and address below and mail.

INTERNATIONAL ACCOUNTANTS SOCIETY, Inc.

A Division of the ALEXANDER HAMILTON INSTITUTE

To the International Accountants Society, Inc., 3411 South Michigan Avenue, Chicago, Illinois.

Send me the special booklet, "How to Prepare for the C. P. A. Examination," which describes your special Coaching Course for Accountants.

Name.....Company.....

Address.....

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

The "KEYSTONE" to ↓ ↓ ↓ ↓ ↓ SUCCESS

Executive Accountancy Training



Realizing, as you must, that accountancy is the very backbone of business, having to do with every phase and every transaction, it is easy to understand why the accountant is highly regarded and well paid. His knowledge of the essential factors that control commercial activities is a "keystone" assuring his own permanency of position, and the solidity of the entire business structure. Today thousands of the most successful executives in America owe their enviable positions and splendid incomes to their training in Accountancy.

Now the Demand Is Greater

From the very beginning of modern business there has been a definite and growing need for accountancy trained men. With new Federal laws and new business methods prevailing they will be in greater demand than ever before. Many laws enacted by the recent Congress created new opportunities for the trained accountant. To qualify for one of these worthwhile positions you must possess training unquestionable in its thoroughness. Such training is available to you through Walton School of Commerce Courses. Here is the

Proof Based on a Record

More than 1,400 of America's Certified Public Accountants, a number equal to practically 10 per cent of all those now practicing in this country, are Walton-trained. Twenty-three honor medals have been awarded Walton students in Illinois C.P.A. examinations. For nine successive years Walton men won high honors in American Institute examinations. Over 250 leading collegiate schools of commerce use Walton texts and methods in their classrooms. Surely this is ample proof of the thoroughness of Walton training.

*Day and Evening Classes
and Home Study Instruction*

WALTON SCHOOL OF COMMERCE

Member National Home Study Council

Charles H. Langer, Ph.B., C.P.A.
President and Educational Director
520-530 McCormick Building
CHICAGO

You can master accountancy right in your own home. Nearly 90 per cent of the successful Walton students have obtained their training in that manner. You may learn how they did it through the pages of our inspirational book, "The Walton Way to a Better Day."

Send for Our FREE Book

In it you will find many helpful suggestions for your own betterment and advancement. It is replete with the experiences of successful men and women who give Walton training the credit for their business triumphs. Send for it now. Use the coupon below.

MAIL THIS COUPON NOW!

Check the courses in which you are interested. They may be taken in combination or separately.

- ☐ Constructive Accounting
- ☐ Advanced Accounting and Auditing
- ☐ Cost Accounting
- ☐ Business Law
- ☐ Federal Income Tax Accounting
- ☐ Mathematics of Accounting and Finance
- ☐ C.P.A. Coaching
- ☐ Mergers and Consolidations

I Am Interested In ☐ Home Study Instruction
☐ Resident Day Classes
☐ Resident Evening Classes

WALTON SCHOOL OF COMMERCE
520-530 McCormick Bldg., Chicago

Please send me, without obligation, complete descriptions of courses checked above, also copy of your book, "The Walton Way to a Better Day."

Name

Address

City and State

Occupation Age.....

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

A LIBRARY OF *Machine* *Accounting Applications*

AVAILABLE FOR YOUR USE!

● Is there some particularly trying accounting problem that besets you at the moment? Then avail yourself of the privilege that is yours as an accountant of seeking its counterpart in the Library of Machine Accounting Applications maintained by Underwood Elliott Fisher.

The Underwood Elliott Fisher Library covers practically every conceivable problem that ever has been

solved by machine accounting. Please feel free to call or write without obligation of any kind.

. . .

Underwood Elliott Fisher makes three types of accounting machines with a wide variety of models in each. There is an Underwood Elliott Fisher Accounting Machine for every accounting purpose ... backed by a nation-wide, company-owned service organization.

UNDERWOOD ELLIOTT FISHER ACCOUNTING MACHINES

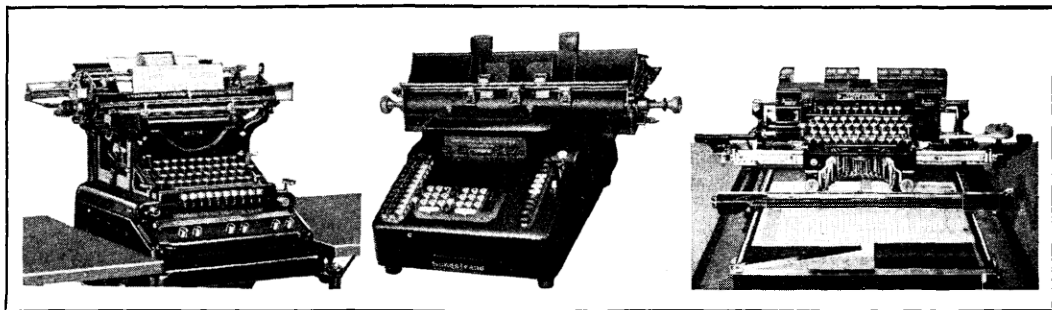
Accounting Machine Division

UNDERWOOD ELLIOTT FISHER COMPANY

Accounting Machines, Typewriters, Adding Machines, Carbon Paper, Ribbons and other Supplies

342 Madison Avenue, New York, N. Y.

Sales and Service Everywhere



*Underwood Model
Underwood Elliott Fisher
Accounting Machine*

*Sundstrand Model
Underwood Elliott Fisher
Accounting Machine*

*Elliott Fisher Model
Underwood Elliott Fisher
Accounting Machine*

Underwood Elliott Fisher Speeds the World's Business

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

The Certified Public Accountant

DEVOTED TO THE INTERESTS OF THE C.P.A., HIS CLIENT, AND THE PUBLIC WELFARE

VOL. XV

August, 1935

No. 8

Editor: DURAND W. SPRINGER. Published monthly by The Accountants Publishing Company. *Publication office:* Candler Building, Baltimore, Maryland. *Editorial office:* National Press Building, Washington, D. C. All communications for publication should be addressed to the Editorial office, National Press Building, Washington, D. C. *Subscription price:* A year of 12 issues, \$2.00; twenty cents a copy. Entered as second-class matter, January, 1934, at the post office at Baltimore, Md., under act of March, 1879.

"Emergency makes the man."

The President's Page

Loyalty

By WILLIAM C. HEATON, C.P.A.

ONE of the attributes most admired in a person is that of loyalty. It may be loyalty to a person, to an organization or to a cause. Whatever its object, it is admirable; it begets activity, persistence and effectiveness; it is much to be desired.

Loyalty to a person which is often an expression of conscientious responsiveness to duty, sometimes requires sacrifice and brings its own satisfactions. It is not upon this, however, that our thoughts dwell for the moment.

Organizations are formed to promote causes. All too often loyalty to causes is transferred to loyalty to the organizations which are established for their promotion. History is replete with examples of earnest men who served poorly the causes to which they were devoted by unthinking (or at least confused thinking) adherence to and support of organizations which were working more for their own perpetuation and expansion of power than for the promotion of the purposes for which they were created. At times this was true of the Christian Church which through the inquisition, witch-burning and the like caused great suffering to many people. It was more an expression of the times than peculiar to the organizations. Happily, through the advance of civilization, we now find the church one of the most potent influences (and it is believed by many, *the* most potent influence) for good in modern society.

Politically, the reverse is true. As nationalism slowly emerged from the centuries of feudalism, patriotic devotion to country became a compelling force in the hearts and minds of men and women. Fanned to intense heat by patriots and demagogues, misunderstanding and intolerance have led to cruel wars and the needless death and maiming of countless numbers of the youth of the countries engaged. Today, we have examples of parties and individuals in political power who appear to be more interested in and more devotedly working toward the perpetu-

ation of their power than the good of the people whom they serve.

It may be asked: "But what has this discussion to do with accountancy?" It is barely forty years since accountancy practitioners in the United States began to be rewarded by public recognition and began the formation of organizations to serve an emerging profession. Today in this country, there is one in nearly every State in the Union, and the District of Columbia, Hawaii, Puerto Rico and the Philippines. In addition, there are two national organizations. In all of these political units, the profession is recognized by law. What is quite as important is the fact that it enjoys widespread public recognition.

This month there will gather at Atlantic City, representatives of most of the State and territorial, and both of the national, organizations to discuss the needs of the accountancy profession, particularly from a national point of view. Divergent opinions need reconciliation. Our loyalty is primarily to the profession as distinguished from the organizations created to serve it.

Five Maxims

LORD PLENDER in his annual address, recently given, as president of the Chartered Accountant Students Society of London, speaking from a half century of experience in his profession, referred to five important maxims, as he called them, which he desired to impress on those present as essential in the proper development of one in the profession of accountancy.

In the first he stressed the imperative need of the newcomers in the profession continuing their reading and study. Too many have fallen by the wayside due to the fact that they did not realize that the effort made to secure their chartered accountant certificate was merely the beginning of the intellectual effort necessary to the maintenance of their position in the onward-moving group of practitioners.

The second suggestion that he made concerned the desirability of maintaining friendships. He urged the newcomers to utilize every opportunity of becoming acquainted with the senior members of the profession. Serious work should not be permitted to deprive one of developing new friends.

His third suggestion was that the accountant should cultivate the art of clear thinking, detailed expression and ease in public speaking. With the increasing degree to which the accountant is taking part in public affairs, this advice is timely.

Legibility of handwriting was named as the fourth important factor. Undecipherable signatures are not an indication of genius in spite of what some people believe.

His last requisite had to do with the necessity of writing concise

memoranda to submit to a principal concerning work which had been done. On this point he said, "I have often seen advancement retarded and even careers marred by want of thought and care by well-educated men who will not trouble to take pains in what they erroneously think are details which do not matter."

His conclusion was "I would ask you to rest a while at times from work and think and meditate. It is good to be alone at times for the problems which arise in our profession and more important still, the problems of life can only be probed in the silent hours when the world about us is still. Seize those moments, for they are precious, as out of your meditations courage may come, faith may grow stronger, hopes may be nearer realization and success hastened."

Directors, 1935-1936

FIRST DISTRICT—George L. Bishop, 68 Devonshire Street, Boston, Massachusetts.

SECOND DISTRICT—John A. Conlin, Federal Trust Building, Newark, New Jersey; Simon Loeb, 521 Fifth Avenue, New York City.

THIRD DISTRICT—James B. Grice, Munsey Building, Washington, D. C.

FOURTH DISTRICT—James L. Jennings, Peery Building, Bluefield, West Virginia.

FIFTH DISTRICT—Eric Louis Kohler, One LaSalle Street, Chicago, Illinois.

SIXTH DISTRICT—Harry M. Jay, Commerce Title Building, Memphis, Tennessee.

SEVENTH DISTRICT—William J. Carter, Citizens and Southern National Bank Building, Atlanta, Georgia.

EIGHTH DISTRICT—Herman C. J. Peisch, Baker Building, Minneapolis, Minnesota.

NINTH DISTRICT—Parry Barnes, Insurance Exchange Building, Kansas City, Missouri.

TENTH DISTRICT—Paul W. Fitzkee, Oklahoma Building, Tulsa, Oklahoma.

ELEVENTH DISTRICT—Henry M. Thomson, C. C. Chapman Building, Los Angeles, California.

TWELFTH DISTRICT—Samuel F. Racine, 416 Virginia Street, Seattle, Washington.

State Representatives, 1935-1936

(Election determined since July issue)

MONTANA—Alfred J. Rowland, Masonic Temple, Miles City.

NEW HAMPSHIRE—J. Ben Hart, Amoskeag Bank Bldg., Manchester.

NEW MEXICO—J. Bryan Stephenson, First National Bank Bldg., Albuquerque.

TODAY

Address given at Atlantic City banquet of The American Society

by JOHN T. MADDEN, C.P.A., New York City

IT is always a keen pleasure to meet with my fellow accountants on such occasions as this, graced as it is by the presence of your charming and long suffering partners. Is there any lot worse than that of being the wife of an accountant? I recall that on the occasion of a dinner given in honor of the Pilgrim Fathers, during which their virtues were extolled and their sufferings vividly set forth, Mr. Choate remarked that no one had spoken of the sufferings of the Pilgrim Mothers who had had to endure in addition, the Pilgrim Fathers.

I feel under the obligation of apologizing for again appearing at your annual dinner after having bored you on so many recent occasions. Your toastmaster delicately refrained from telling you that the speaker originally pledged for this dinner found himself unable to be here at the last moment. I am alas a poor and unworthy substitute but please rest assured that the committee made valiant efforts to secure someone else before they were compelled as a last desperate resort to impress me into service.

Knowing of my characteristic verbosity the committee sought to limit me by assigning as the subject of my address the single word "Today." But here they made the greatest of blunders for today flows out of yesterday and into eternity. With this ample warning those of you who shall still remain in your chairs richly deserve the fate that is in store for you.

But before you leave, may I ask you to rise and drink a silent toast to the members of this society who have been called to their final reckoning during the past year. The list is far too long but in this moment of silence, let us pray that the Master found them all, men with accounts well-balanced. You will pardon me for a moment while I call attention to one name on the list, William Henry Dennis of New York who was one of my early instructors in New York University. For almost

three years he rested under the cloud of an indictment by a Federal Grand Jury because of a gross miscarriage of justice. And although a Federal Judge from his bench in open court condemned this grave injustice in scathing language he could not repair the wounds in the heart of this faithful practitioner who was always motivated by the highest of principles. Be it said to the credit of our profession that his associates lost no opportunity of personally expressing their faith in his integrity but even this could not soften under the severity of the blow. "Revenge is mine" saith the Lord. May God deal justly with those servants of the Federal Government who resisted for three long years his fruitless attempts to have the case brought to a speedy trial. I take pleasure in saying that some of his students and colleagues have organized for the purpose of arranging for a suitable memorial of permanent character at the scene of his early labors. William Henry Dennis was faithful to the highest traditions of our profession. This leads me to say a word on tradition.

TRADITION:

The practice of accountancy has made substantial advances during the past decade. But only a beginning has been made in what may be designated as the traditions of a profession. I presume that it is correct to say that the finest traditions of any profession are those ways of conduct that are more often not reduced to formal rules. Journalism has had its traditions and the violation of those norms of conduct was designated as "yellow journalism."

Reporters and editors have been clapped into jails by ignorant judges who had no sense of tradition themselves.

We preserve the memory of Don Mellett at New York University who lost his life in upholding the finest traditions of journalism.

The building of a tradition is a slow

process but the edifice when completed is as enduring as the pyramids.

Since the depression began we have examined into certain practices of business and banking and we find them blame worthy. With our usual fervor we pass laws designed to correct the evils. In the process of examining into these conditions we too often employ spectacular methods.

And in some cases for reasons which it is difficult to understand and in other cases for reasons which are wholly political in character, we make certain individuals candidates for the pillory when as a matter of fact, these persons were merely the victims of a system of which they were unwillingly a part or of a system from which they could not extricate themselves. Our money market for example has been criticized and quite properly. The development of our money market was different from that of London or other markets. Certain factors peculiar to our local conditions were responsible for this. For the most part, the abuses which crept in were not consciously created by financial high-binders or bandits. They grew out of the system or they were in some cases brought about by the absence of these norms of conduct which we call tradition. Consequently when a sudden halt is called and the machinery stops we discover many imperfections that we did not or could not remedy while it was in motion.

Tradition is something that we sense or feel better than we can describe it. I remember the managing director of a European bank who proudly told me in 1930 that his bank was still a solvent bank even though it had gone through the war, through a period of inflation and a subsequent period of deflation and even survived a revolution. "But," he added significantly "it was necessary to draw upon 120 millions of secret reserves built up through 79 years of the banks existence." Here there is an illustration of a tradition of the soundest kind in banking but note that several generations of stockholders had received smaller amounts of earned profits in dividends than they would otherwise have enjoyed, in order to produce this result.

Now I draw one lesson from my study of American industrial history and that is

that despite much which was sordid, and much that was indefensible, there has been a consistent record of improvement in ethics and we can note the beginning of a tradition.

And so, when we are considering the practice of accountancy or banking or medicine or law in these penitent and more righteous days of 1934, let us judge the practices of a prior era in the light of the circumstances which then prevailed. And before we condemn too harshly let us look into our own hearts for perhaps we also have much that we are not proud of if dragged into the light of day. Some sovereigns have been ignorant of the true state of their realms—they reigned but they did not rule. When we survey the wreck of the world since 1914, we realize that a proper estimate of our humanity must necessarily be a low estimate. Nothing is more rare than tolerance, fairmindedness and a sense of proportion.

The President's discussion on unemployment in his radio address of Sunday last, forcefully reminded me that employment conditions in our own profession have not always been ideal. Let your own consciences be your guide in the matter as far as our profession is concerned but meanwhile permit me to allude for a moment to the President's remarks. For it seems to me that accountants are likely to be of help to industry in this matter.

Unemployment—regardless of the type of economic legislation already on the statute books or of that which may be placed thereon later, we must frankly face the issue of unemployment and solve the problem. Unfortunately we have practically no data on the subject in this country nor the machinery to collect them. But we do know that new inventions have increased the output per worker; that a substantial amount of unemployment is a permanent factor under the present order of things and that science and engineering skill are on the eve of discoveries and changes even greater than the marvelous developments we have already experienced. The worker is placed in a position of greater insecurity and through no fault of his own because his unemployment is due to causes beyond his personal control. This being so, and anyone ac-

quainted with the facts must admit them, we cannot say in the words of Cain, "Am I my brother's keeper?" We must accept this responsibility for planning for unemployment because our fellow-men, no less than ourselves, were created in the image and likeness of God. We must recognize that the individual as man has certain inalienable rights which the state cannot deprive him of and which he should not surrender. And so, on moral, social, economic and political grounds, this problem must receive attention at once.

There is some experience that may guide us in fact at least. England and Germany have attacked the problem on different principles. Much of their experience may not perhaps apply to our conditions but we can say this, I think, the problem is too great to be solved by industry alone. The nation must lend its support in no small measure and we must willingly acquiesce in this further "invasion" of government into business, however ardent advocates we may be of individualism or however much we may deplore the additional charges upon our incomes to provide for the necessary measures of relief and/or insurance.

The relief measures which necessity has compelled us to adopt in this period of depression cannot permanently continue. They are not sound in principle but most important of all they are not compatible with man's dignity as man. On the other hand, the risks of an insurance plan are so great and the facts upon which a sound insurance scheme should be based are so meager and inadequate that we must turn to the Government to organize and develop a plan which will protect the worker and his dependents from hazards too great to be provided for by his personal resources or by resources short of national scope. We should support the President in any well-conceived plan which must frankly be experimental at the outset but which will comprehend the intelligent cooperation of industry, the worker and the consumer.

Those of us who studied economics in the old order know that "free" goods were air, light and water except in the larger communities. But in these days of a surplus economy we must expand this concept of free goods to include in addition the

minimum of food, clothing and shelter for every man willing to work.

The civilization of the epoch immediately ahead of us will rest on the foundation stones of science and invention, and our culture of the immediate future, while retaining all the good of the heritage of the past will be influenced tremendously by our economic development.

TODAY—Some of you have suggested that I say a few words upon some aspect of present-day conditions. The hour is late and time is flying. The ladies are anxious to join you in the final social event of the convention. I will just touch upon one phase which seems the most important at the moment.

The President in his speech on Sunday evening, in speaking of England and her policy said, "Did England let nature take her course? No. Did England hold to the gold standard when her reserves were threatened? No. Has England gone back to the gold standard today? No." Undoubtedly considerations of time prevented the President from a detailed discussion of his many topics. It is important to note that in the past, governments have suspended the gold standard in most cases, only when circumstances beyond their control compelled them to do so. England was forced off the gold standard. She had no alternative. But our abandonment of that standard was not dictated by any such circumstances. Let us, then cease making such inapt comparisons, our abandonment of the gold standard was voluntary. It was a deliberate step in a program of economic experimentation. And likewise too our devaluation of the dollar and the stabilization of January 31, 1934 were unique in financial history, designed to raise commodity prices and facilitate recovery.

In the United States, the entire profit from the revaluation of the gold reserves of the Federal Reserve Banks and the Treasury has accrued to the government with far-reaching effects on the finances of the government and on credit conditions in this country. In Europe the profit similarly derived was generally utilized to pay off the debts of the governments to their respective central banks. Consequently

(Continued on page 512)

Accounting Organizations*

D. W. SPRINGER, C.P.A., Ann Arbor, Mich.

THE surest way of correctly measuring the advancement of any profession is by comparing the various organizations by means of which the members of the profession have seen fit to associate themselves. The minister, the lawyer, the doctor, the dentist, and no less the accountant find that "in union there is strength." "Each for all and all for each," represents the highest form of cooperative effort, and until that condition is reached no professional group is 100 per cent efficient.

The history of organizations, like the history of individuals, indicates that their lives are made up of year groupings, each of which has a distinguishing characteristic. As the child develops slowly at first and then reaches a point where through the period of youth he suddenly becomes a man, so each of the various professions has found that its early growth was slow, but it has eventually reached the point where, as a result of reorganizations of the machinery by which its efficiency is measured, it has just as suddenly as the youth taken on a new lease of life.

Accountancy is no exception to the rule. Complacently we have journeyed along since 1896 when the State of New York passed the first legislation in the country concerning accountancy and legalized the distinction of C.P.A. (certified public accountant). During the quarter of a century following the first law every State in the Union has passed similar legislation, and the District of Columbia law will soon be in effect.

In March of 1897 the Illinois Association of Public Accountants and the Pennsylvania Association of Public Accountants were organized, and the New York Society of Certified Public Accountants completed its organization May 10 of the same year.

The first association of accountants in the United States was the Institute of Ac-

counts, organized in 1882 in New York. The American Association of Public Accountants was incorporated in New York in 1887, and was the first organization in this country where membership was confined exclusively to professional public accountants. In 1902 the Federation of Societies of Public Accountants in the United States of America was organized at Washington on the initiative of the Illinois Association, and by 1905 it had enrolled 26 State societies with about 500 members. The American Association of Public Accountants started with eight members in 1887, and by 1896, when the first C.P.A. law was passed, that membership had been increased to 75. In 1905, when the Federation of Societies of Public Accountants consolidated with the American Association of Public Accountants, the membership of the combined body was 587. By 1911 it had reached the 1,000 mark, and in 1916 the American Association had a membership of 1,238. At the 29th annual meeting of the American Association of Public Accountants, an organization of constituent societies and individual members, held in 1916, it was merged into the American Institute of Accountants consisting entirely of individual memberships. The American Institute had a membership of all classes of 1,484, September 1, 1921.

The American Association made a net gain of 238 during its last five years of existence and the American Institute made a net gain of 246 during its first five years, but neither organization has maintained a membership which was relatively as large, when compared with the total number of certified public accountants in the United States, as was the membership of the American Association in 1911. This statement is not made as a reflection on either organization but merely as indicating that the national organizations have not been meeting the needs of the certified public accountants as they saw them.

The American Society of Certified Public Accountants was organized in Decem-

*Reprint from Vol. 1, No. 10, THE CERTIFIED PUBLIC ACCOUNTANT, October, 1922.

ber, 1921, with the avowed purpose of maintaining the integrity of the C.P.A. designation. The immediate cause of its organization was the activity of the National Association of Certified Public Accountants, a privately incorporated body, which has since been declared by the Supreme Court of the District of Columbia to have operated in an unlawful manner. This situation demanded a united effort on the part of all the certified public accountants in the United States to secure C.P.A. legislation in the District of Columbia.

In some instances states had organized accounting societies in advance of securing C.P.A. legislation. Where this had been done they were usually reorganized into state C.P.A. societies and where no organization had been effected prior to the passage of the C.P.A. law it was usually true that following its passage one was organized. These state societies, now numbering 38, have gone along as a rule in a self-satisfied manner. Some have been content to retain the membership they had at the beginning and others have been content to accept membership only from holders of certificates granted by their own state. Some have confined their active membership to accountants in public practice, with the result that the C.P.A. who took up private corporation work was automatically shifted in his society relationship, while others have undertaken to maintain active organizations and attract to their membership the accountant as soon as he had secured his state certificate. There has been, however, no widespread uniformity looking toward the developing of strong state societies which would be mutually helpful to each other and to the national organization of the profession.

As is well understood, the basis of the certified public accountant in this country is different from the basis of the chartered accountant in foreign countries. The chartered accountant comes to his position entirely through a private corporation which has been legally given the right to hold examinations as the result of which certificates as chartered accountants are granted. In America we have followed the same procedure in the accounting profession as in all other professions, namely,

that each state has provided a board which has established rules and given examinations as the result of which certificates to practice as certified public accountants have been issued. With us the certificate secured is in reality a license. C.P.A. may be said to be the trade mark of the profession.

With laws passed in each of the several states and rules adopted by each of the several boards of accountancy, it naturally followed that while there was a general similarity there were differences in detail which made it difficult to always make accurate comparisons of relative values. The laws having been enacted at different periods over a quarter of a century, it is true that in the states which passed the earlier laws there has been developed as a rule a prestige because of the reputation made in the business world by those who have been in public practice for the longer period of time. In other words, the reputation of the profession has been established by the united efforts of the individuals in that profession. In attempting to make comparisons of conditions in different states many persons have overlooked the time element and they have expected the same conditions in the accounting world to exist in a state which has only had a C.P.A. law for three years as is found in a state where the C.P.A. law has been in existence for twenty years.

Another matter which is often overlooked when comparisons are attempted is the fact that accounting practice and accounting conditions are closely associated with business needs. The work of the public accountant has largely grown with the development of the corporation and the corporation has followed the development of cities. The requirements of the business world in a community of a million inhabitants are hardly to be compared with the requirements in a community of a thousand inhabitants. Naturally, therefore, laws and administration of laws regarding accountancy are not as severely scrutinized in the states where industry and commerce are the least developed as in those where they are more highly developed. This is no different in accountancy than in law or in medicine, which professions have reached

through a long period of time the highest type of standardization of any. Even now one does not look for as good a lawyer or as good a doctor on the average in the small community as in the large, or in the sparsely settled country as in the thickly settled country, due to the fact that the reward for their efforts cannot possibly be as great in the one place as in the other. In both the legal and medical professions the attempt has been to strengthen the profession as a whole by drawing to the national organizations all possible members from among the ranks of the profession, developing the national organization individually through the state organizations, thus securing a coherent and effective hold on its members no matter where located.

With reference to any single state, no one imagines for a moment that its state board was as efficient in administering the law during the first five years after it was passed as it has been during succeeding similar periods. Few persons, no matter how picky their feelings are with regard to relative values of different state certificates, would be able to agree upon the exact date for any state in the Union before which certificates issued by that state should not be recognized because of an imperfect law or imperfect administration and after which all certificates issued by that state should be recognized by reason of a perfect law or perfect administration. Until every state had passed a C.P.A. law it was actually impossible for any national organization to have completely covered the country in a definite relationship to certified public accountants.

Now, however, we have come to a point in the history of accountancy when we must take careful stock of the situation as it exists and determine whether or not the plan of any one national organization is such as to cover all the needs of accountancy as they now exist, or whether if it is found that no one does cover the needs it will be possible to so change either organization as that it shall embrace all of the requirements and not make necessary two national organizations.

It is our judgment that the organization of the National Association of Certified

Public Accountants, publicly proclaiming to do what its charter would not permit it to do, and which, laying aside the high and lofty motives set forth in its original announcement, degenerated into a mere degree selling organization, has been a blessing in disguise. Many certified public accountants had for some time felt that sufficient attention was not being paid by the American Institute to the question of interstate relationships, although it had by means of its examinations done much to bring about more uniform standards throughout the entire country. However, the question of examinations is merely one phase of the broader problem of interstate relationships. Another point at which the Institute under its plan of organization is handicapped in meeting the C.P.A. situation throughout the entire country is that while its standards are no higher than they should be as representing the idealistic future as well as the practical present of accountancy, the fact remains that there is a period after securing a state certificate, even though based on the Institute examination, in which many of those who have been certified are actually unable because of ineligibility to secure even associate membership in the Institute. They are lacking in practical professional experience.

Many suggestions for amendments to the By-Laws of the Institute were considered at its recent meeting. However, they were not broad enough to settle an underlying question which must be fairly and squarely met. Shall the state C.P.A. certificate be the standard for accountancy in general in this country or shall we follow the foreign policy of establishing another designation by means of a private corporation.

It will be worth while for us to examine the type of national organization which the medical profession has adopted, for it is recognized by all who have studied the matter that the medical profession is the most successfully organized of any. Doctors secure their degree from medical schools, but each state has provided a Board of Registration which does not accept the diploma of the embryo doctor, but gives him an examination, and if successful licenses him to practice in that state.

Although the problems revolving around interstate relationships in medicine have been carefully considered by the profession through its national and state organizations cooperating with the State Board of Registration, it is not possible even now for doctors to move absolutely freely from state to state and secure registration in the new state based on registration in the state from which they come. However, conditions have become so standardized that every doctor knows in what states the certificate which he has will be recognized for registration purposes, as practically all of the states of the Union are to be found in one or the other of two combinations and between the states in each combination reciprocal arrangements are easily made.

A certificate of registration granted by a state board is the basis of eligibility to membership in the medical society of that state. In some states membership in the state society may only be secured through membership in a county or local society, but those are the more highly organized states. Membership in the American Medical Association may only be secured through membership in a state medical society, although state society members need not join the national association. Thus we see, that the basis of membership in local, state or national organization is the holding of a certificate of registration from a state board. No one claims for a moment that all medical schools are equally good, that all state medical laws are exactly alike, or that all of them are administered with an equal degree of efficiency, but it is acknowledged by all that greater strides toward uniformity have been made in medical education and medical legislation since the present type of organization was effected than before.

Recognizing the fact that experience in one's profession is the essential requisite in finally determining the professional standing of an individual, superorganizations have been effected, as the American College of Surgeons and the American College of Physicians. The plan of the College of Surgeons will illustrate the point in question. While the recent graduate and newly registered doctor may enter the professional ranks through the regular local,

state, or national organization, he must bide his time, if he is a surgical specialist, before he can become a member of the College of Surgeons, no matter what may be his social, financial, or political standing. When he has followed his profession sufficiently long so that he can furnish the college authorities—and it must be understood that it is a college only in name—with a record of operations performed in his special field, which satisfies its board that he has acquired a position in the surgical world which entitles him to a membership therein, and when he has been properly vouched for as to character and standing by members of the college, he is admitted by formal vote without any examination.

The accounting field presents a condition practically similar to that of the medical field. Some provision must exist whereby the accountant who has just secured his C.P.A. certificate may ally himself to the profession in general by means of membership in a national organization and some provision must exist for a recognition at some distant date of the fact that he has in pursuing his professional duties met the standard that is set up and has so conducted himself in relation to his fellows as that he should be admitted to the smaller group who have demonstrated by their work that they are entitled to membership.

There are six points that should be covered by national accounting organizations, whether one or many.

1. The maintenance of the C.P.A. designation should be the first interest of some national organization and this purpose can best be attested by the use of C.P.A. in its name. The events of the last year have clearly demonstrated that in this country, C.P.A. is the designation which is and will be recognized by business men and by accountants, owing to the fact that for twenty-five years all accounting legislation has been built up around it.

2. The national organization of certified public accountants should have its headquarters in Washington. Every week accountants are in Washington from the several states on business connected with the Government. The headquarters of a national organization located in Washing-

ton could be visited more frequently than if located elsewhere, and a closer touch could be maintained between the national society and the various State boards and State societies because of the opportunities for conference which would thus be afforded. The American Society has had a large number of visitors from its out-of-town friends.

3. Some national accounting organization should be so organized that membership therein may be obtained on the basis of State granted C.P.A. certificates. This The American Society undertakes to offer. The time will come when membership in such society should be restricted to those who come to it through the State societies, the same as membership in the American Medical Association is only obtainable through the state medical associations, but we are not quite ready for that step in the accounting profession as not all states have been organized. When membership in the state association is required, it will have a tendency to strengthen the state organization, as well as to strengthen the national organization, as it then places the responsibility for character representations upon the state societies, where it rightfully belongs.

4. Provision should be made in some national accounting organization for membership based on professional attainments. A national organization which shall do for the accounting profession what the American College of Surgeons and the College of Physicians are doing for the medical profession is valuable, and the American Institute is in a position where it can properly assume to occupy that position in the accounting world.

5. From time to time as opportunity presents itself in the various states changes in the present accounting laws should be made and some national organization should be the center of activity in matters of that sort. This must naturally be done by an organization whose first business it is to maintain the integrity of the C.P.A. designation. The American Society, accepting membership based on every state law, can be of assistance by adding to the local prestige which every State Board and State Society has the benefit of the information which it has gathered concerning C.P.A.

legislation when viewed from the standpoint of the entire country.

6. The question of securing at as early a date as possible uniform C.P.A. legislation and uniform administration of the same is closely related to the problem of reciprocal relationships. From the beginning of its organization The American Society has been preaching the doctrine that the State Boards must be brought together and that the spirit of comity should prevail. It is not a matter that can be settled immediately, but it is a matter that is of vital importance to the holders of every C.P.A. certificate. Accounting practice can not be restricted to state lines.

Constitutionality

Every once in a while the question is raised as to the possible constitutionality of certain types of legislation attempting to regulate professions and most generally those who argue against possible constitutionality take refuge in the statement that of course the doctor may be regulated because he is dealing with the health of the citizenry but the accountant is not concerned with matters of similar importance. Under present-day developments the accountant has as vital a connection with commerce as has the doctor with community health. Chief Justice Taney (License Cases 5 How. 504, 583) commented with regard to police power as follows:

"But what are the police powers of a State? They are nothing more or less than the powers of government inherent in every sovereignty to the extent of its dominions. And whether a State passes a quarantine law, or a law to punish offences, or to establish courts of justice, or requiring certain instruments to be recorded, or to regulate commerce within its own limits, in every case it exercises the same powers that is to say, the power of sovereignty, the power to govern men and things within the limits of its dominion. It is by virtue of this power that it legislates; as its authority to make regulations of commerce is as absolute as its power to pass health laws, except in so far as it has been restricted by the constitution of the United States."

Seen In Published Financial Statements

THE FIRST IN A SERIES

by W. T. SUNLEY, C.P.A., Chicago, Ill.

INCLUSIONS IN AND EXCLUSIONS FROM INVENTORIES

Accountants' difficulties with inventories result largely from three sources:

- (1) Inclusions which are theoretically improper.
- (2) Improper valuations.
- (3) Deliberate misstatements of quantities.

Mathematical errors, although common, are omitted from the above list because they cause no real difficulty.

An inventory was originally "a detailed account, catalog, or schedule; * * * a list, with valuations, of articles * * *" ¹ and only by transference of meaning has the word come to denote the articles themselves which "constitute or are to constitute the inventory."² But as Bell points out in his useful volume on "Accountants' Reports," the word is now commonly used in this latter sense, "synonymous with 'merchandise,' in denoting the stock of goods at a certain time," whether or not there is a detailed list.

It would seem not far-fetched, however, to suggest that many of the accountant's troubles with inventories result from a failure to distinguish between "merchandise" and the "list." In the old days, almost anything that was reasonably capable of being listed was likely to be found in the "inventory" caption, and even today there are few experienced accountants who have not seen office furniture in the inventory or who have not heard of an inventory of accounts receivable.

Hypothecations.—The wide acceptance of the Federal Reserve Board's bulletin on Verification of Financial Statements—a popularity justified within the proper scope of the pamphlet—has helped to cure the evil of improper inclusion. The first instruction regarding inventories in this

small volume is the following:

"Only stocks of goods owned and under control of the owner should be included under the heading Inventories. Stocks of merchandise are often hypothecated, and, if this has been done, that fact and the book value must be stated on the balance sheet."

In illustration of this principle, Struthers Wells-Titusville Corporation shows:

Inventories (physical inventories at lower of cost or market), \$110,942.86 is pledged as collateral to \$105,718.09 of notes payable.

Similarly, Consolidated Coppermines Corporation displays:

Inventory of copper—			
5,389,287 lbs. at 8c per			
pound, certified as			
held at refineries for			
account of corpora-			
tion, of which 5,152,-			
000 lbs. are pledged,			
per contra:			
Sold for delivery			
in 1935	\$ 80,669.44		
Unsold	350,473.52	\$431,142.96	

In this case the amount of the liability is shown as a separate item on the liability side.

The Amalgamated Sugar Company (March 31, 1934, report) mentions the hypothecation in a footnote referred to in the caption, which reads, "Inventories—note 1." (The full display appears later in this article.) The footnote says:

Note 1: Of the refined sugar included in the inventories at manufacturing cost, which was lower than market, the amount of \$3,023,040.00 was pledged as security on notes payable to banks.

Consignments.—Another rule in the same bulletin is the following:

"The inventory must not include anything which is not owned but is on consignment from others. If goods consigned to others are included, they must be carried at cost prices, less a proper allowance for loss, damage, or expenses of possible

¹Funk & Wagnalls' New Standard Dictionary of the English Language.

²Ibid.

subsequent return. This rule does not apply to goods at branches, as the valuing of such stocks will be governed by principles which apply at the head office."

Hazel-Atlas Glass Company shows merchandise consigned—out as a separate item:

Inventories:

Raw materials, in process and finished stock, and material in transit (at approximate cost or market) certified by responsible officials as to quantities and condition	\$3,187,806.53
Materials and supplies for repairs and maintenance (at cost) ...	612,612.99
Consigned merchandise	674,951.06
	<hr/>
	\$4,475,370.58

Unsalable, or Obsolete Merchandise.—

The bulletin mentions unsalable merchandise as an improper inclusion and says also:

"If a company has discontinued the manufacture of any of its products during the year, the inventory of such products should be carefully scrutinized and, if unsalable, the net amount of loss should be written off."

Gillette Safety Razor Company carries the valuation adjustment in reserve accounts:

Inventories, at the

Lower of Cost or Market Value, after applying Reserves of \$1,290,965.73 for Obsolete and Slow-Moving Items of which \$1,023,317.45 was provided out of Capital Surplus in 1931:

Raw Materials and Supplies	\$568,379.43
Work in Process..	329,070.90
Finished Goods ..	648,227.13
	<hr/>
	\$1,545,677.46

Perhaps to the same effect is the display by Westinghouse Electric and Manufacturing Corporation:

Inventories, less reserves \$5,534,-
784.81, at cost or less\$35,707,818.66

This, however, is generally a problem of valuation rather than of inclusion, and will not be enlarged on here.

Carrying Charges.—The bulletin points out a proper inclusion as follows:

"If duties, freight, insurance, and other direct charges have been added, the items

should be tested to ascertain that no error has been made. Duties and transit charges are legitimate additions to the cost price of goods, but no other factors should be added except in extraordinary circumstances."

The principle is commonly accepted that all direct costs of carrying an inventory are proper additions to cost. Such costs may include storage, handling, taxes, etc. The general rule that (ordinarily) an inventory must not be stated above market often, however, has the effect of eliminating these from the valuation.

As an example of the inclusion of such costs, American Manufacturing Company sets out separately in its inventory tabulation:

Accrued floor tax\$16,324.07

The Amalgamated Sugar Company (mentioned earlier in this article in connection with its reference to "note 1") displays:

Inventories—note 1:

Refined sugar, stocks in process, and by-products (cost or market whichever lower)	\$5,367,358.88
Beet seed, materials and supplies	522,244.30
Commercial live-stock and farm products	51,285.31
	<hr/>
	\$5,940,888.49

Freight paid on sugar to market points and in transit thereto—note 2\$297,369.39

The latter footnote is irrelevant to the matter under present discussion:

Note 2: Freight paid on sugar, stored in transit to market, included \$108,188.57 on sugar pledged at in-transit points to secure notes payable to banks.

Merchandise in Transit. — Couchman sets forth the following principle:³

"Inventories should include only items title to which is vested in the organization. They include purchases not received, if the purchase contract is such that title has been transferred to the organization. If goods have been purchased f.o.b. point of shipment and have been delivered to the common carrier at that point they may properly be included in the inventories of

³"The Balance Sheet," page 68.

the purchaser."

To this Kester adds:⁴

"If such goods are purchased f.o.b. point of destination, and if in transit, they would be included in the inventory of the vendor."

Libbey-Owens-Ford Glass Company sets forth the in-transit merchandise separately:

Inventory—at cost			
Raw materials, in process and finished product ...	\$3,312,906.70		
Plant supplies, etc..	1,245,565.58		
In transit materials and supplies	208,070.93	\$4,766,543.21	

The display by The Fair—Chicago is similar:

Inventories (at lower of cost or market)			
Merchandise on hand			
	\$2,648,763.91		
Merchandise in transit			
	226,671.34	\$2,875,435.25	

Authorities generally do not seem to demand such separate disclosure of merchandise in transit.

It is noticed that The Coca-Cola Company mentions the inclusion of merchandise owned but stored:

Inventory—Merchandise including sugar stored in bonded warehouses—
(Priced at lower cost or market) \$11,658,790.98

Questions of Title.—The Federal Reserve Board bulletin instructs that:

"The inventories must not include anything which has been sold and billed and is simply awaiting shipment."

Conversely it points out the impropriety of including merchandise for which (if not paid for) no liability has been set up, but this is not meant to indicate sanction for the omission of any actual liabilities. In determining such liabilities, as Montgomery⁵ points out,

"Except in rare cases the auditor should not be influenced by technical questions of title. If he is in doubt, ignorance will not serve as an excuse—counsel can be consulted. In many cases where there has been intent to deceive creditors, merchan-

dise has been omitted from the assets and its cost from the liabilities on the ground that title had not passed and that it would have been 'improper' to have included such stock. This is often absolute subterfuge. A balance sheet is not a legal document but is an estimate of assets and liabilities including *contingent* liabilities. This answers the question. It is an insult to one's intelligence to quibble over legal refinements when preparing a balance sheet. The *intent* of the parties generally governs commercial transactions to such an extent that it affects interpretation of the legal principles which apply. Sometimes the title to goods in transit depends on acceptance or approval by the consignee. The mere fact that such a right exists is not justification for omitting the item from the balance sheet. The *intention* of the parties should govern."

Advance Payments on Purchases.—Another rule of the Federal Reserve Board's bulletin is:

"Advance payments on account of purchase contracts for future deliveries should never appear in an inventory. They should be shown on the balance sheet under a separate heading."

In conformity therewith The American Metal Company, Limited, shows, just below inventories:

Advances against ores and smelting materials, etc.\$815,267.92

At the same location in the balance sheet The American Rolling Mill Company carries:

Advances on ore contracts\$513,041.46

The principle seems to be generally accepted that it is not good accounting practice to "bury" such advance payments in receivables or permit them to apply as a reduction of payables.

Currentness of Inventory.—The connotation of current assets indicates ability to dispose of the items readily within a year. Much attention is ordinarily paid to obsolete and shop-worn items, which are written down to a conservative net realizable value, but less attention has been paid to the fact that in many inventories there are items which will certainly not be sold within a year. Makers of heavy machinery, such as dynamos, locomotives, steam shovels, have at all times much in

⁴"Accounting Theory and Practice," volume 2, second edition, revised, page 146.

⁵"Auditing—Theory and Practice," fifth edition, pp. 196-197.

the way of sub-assemblies which will not by any stretch of the imagination be converted into sales within a year. No objection is ordinarily heard to the inclusion of such items in the inventory caption.

Kester⁶ lays stress on this matter of the currentness of the merchandise:

"Included under the class of 'Current Assets' are usually all those assets represented in the trading cycle of a given business. In all trading and manufacturing businesses, at the basis of the current assets is the stock-in-trade which is purchased or manufactured for resale. In a trading business the stock-in-trade is usually resold without change, while in a manufacturing business the product purchased undergoes certain changes to put it in shape for the market for which it is intended. In any kind of business regard must be had to the normal trade cycle or turnover period when judging the currency of an item. Although currency of assets is usually judged on the basis of the estimated length of time required for the conversion into cash—six months or a year, at the most, being the usual yardstick for this purpose—the rate of turnover is nevertheless a highly significant and important factor. Thus, although merchandise is normally a current item, if such large stocks are on hand at the time of inventory that there is little possibility of the entire stocks being disposed of during the turnover period, the inventory as a whole is not so current as that portion of it which will be converted during the turnover period.

"Similarly, in a manufacturing business, if such large quantities of raw materials are on hand that they will not be used up in the manufacture of a finished product with which to supply the market within the normal manufacturing cycle, such excess over the normal requirement is not so current as the portion which will be first converted, and some portion of the excess, because of injudicious buying of large quantities of little used material, may indeed be altogether non-current.

"Thus, the fact that an asset has the form and title of merchandise does not

necessarily mean that it is a strictly current item."

The Federal Securities and Exchange Commission has emphasized this same point. The Instruction Book for Form 10 provides that items included in current assets "shall be generally realizable within one year; however, generally recognized trade practices with respect to individual items such as * * * inventories long in process are admissible, provided such trade practices are stated."

Two of the most pronounced examples of specific disclosure in connection with such inventories, however, seem to be in relation to finished goods which, while by no means obsolete or obsolescent, will for one reason or another not be sold within a year, and in relation to plant repair and replacement parts often included as part of a general "materials and supplies" caption.

An example of finished goods which will not be sold within a year but which nevertheless have full value may be found in the inventory of an automobile manufacturer. Assume that the front-fender design has been changed materially. The manufacturer, however, will for many years be called upon to supply replacement fenders for cars of the abandoned model.

The automobile industry has accumulated surprisingly dependable statistics as to the demand which may be expected for such replacement parts in the first, second, and every other year after the discarding of a model. If the manufacturer were to build the replacement parts in lots of only 10 or 100 where 1,000 will eventually be needed, he would lose all the benefit of mass production and of continued operation. As a consequence he builds as many as he is confident of selling within the time in which storage and handling costs will not offset the saving resulting from larger production.

Many such parts will not be sold within a year, and are consequently not current assets within the meaning of the Securities and Exchange Commission's definition—unless they are so included as a result of a "generally recognized trade practice," in which case such trade practice is required to be stated. The filings with the Commissioner show many such dis-

⁶Op. cit., pp. 147-148.

closures, and it seems probable that many 1935 published reports will follow this new principle by making such disclosures either parenthetically in the caption, or as a notation, and that many public accountants, in the absence of such disclosures in the statements—which are the client's—will consider it necessary to qualify their certificates.

(The question, however, as to whether accountants are necessarily to assume the burden of setting forth all recognized trade practices on which their certifications are based is one which may open up a wide field of argument.)

Of course inventory items other than finished goods may not be current, if that term is to be limited to merchandise which will be realized at full value. Filings with the Securities and Exchange Commission and 1934 published reports contain disclosures of the fact that such delayed-movement items have been classed as current. American Manufacturing Company, for example, carries the following notation at the foot of the balance sheet:

"The inventory includes an item of \$333,805.83 (including expense of insurance, storage, etc., of \$56,577.83) representing a large quantity of raw material which may not be disposed of within one year."

The Trade-Practice Theory.—Public accountants often find themselves out of harmony with a client who insists on following a trade practice which is not otherwise the best accounting practice. Bell⁷ points out an example:

"In certain seasonal businesses, notably the dry goods business, it is quite customary, in closing the books at the end of a season, to exclude from the accounts purchases and expenses for the next season's business. There are often large amounts of goods on hand for the succeeding season which are not included in the inventory; and the invoices therefor, which usually bear future dating, are not taken up as liabilities. * * * When the asset and the liability have been excluded there should always be a footnote on the balance sheet to that effect."

⁷"Accountants' Reports," second edition, revised, page 44.

Bell, of course, does not mean to indicate that this is the best accounting. He points out that he "has known of cases where part of the next season's goods have been sold without any charge having been made for the cost thereof." And Montgomery⁸ adds:

"Title to the goods which have actually been delivered is in the purchaser. He is responsible for the goods, they are insured by him, and he is liable for them. Such transactions should be incorporated on the books and reflected in the inventory regardless of the season in which the raw material is to be fabricated or sold."

Although the liability exists and the merchandise is the purchaser's, the omission from the financial statements—provided full disclosure is made in notation—is justified because it is a trade practice to make such omission. Trade practices of this kind must not be condemned without knowing why they exist. In this case, as in many, the practice developed from a set of entirely innocent circumstances.

Manufacturers of seasonal merchandise must keep their plants busy the year around. Let us avoid the extreme example of Christmas toys, considering instead an article of clothing which is materially different in weight or style for the different times of the year and of which the retailer wants his entire summer supply in March and his entire winter supply in September.

The manufacturer works from September until March in processing the summer merchandise. He desires to get this stock out of his factory as promptly as possible, wishing to avoid an impossible packing and shipping problem in March. Consequently he arranges to make earlier deliveries, in perhaps November or December, but gives the retailer advance dating as though the merchandise were shipped in March.

The retailer thus looks upon the merchandise as being in his possession only as a favor to the manufacturer, and although he has a legal liability there is much justice in his point of view. Yet because of the legal liability he must footnote his statements to disclose any liability he has not taken up.

But is footnoting sufficient? Is the fi-

⁸Op. cit., p. 196.

nancial statement accurate when the liability is omitted? It is accurate if the notation is considered a part of statement, and that is the present point of view. The footnote says, in effect, that as far as his conduct of his business is concerned the balance sheet is accurate, but that for the convenience of manufacturers he has accepted merchandise and assumed a specified liability not expressed in the balance sheet. Perhaps it isn't, theoretically, the best accounting, but it does make a full disclosure, and it would seem, can properly be certified to by any accountant.

Supplies As An Inventory Item.—It was mentioned above that the two most pronounced examples of specific disclosure as to noncurrent items in inventories were in relation to merchandise which will not be disposed of within a year and in relation to plant repair and replacement parts. Before proceeding to discuss the second item let us consider the matter of supplies generally.

Inventories (the items on the lists instead of the lists themselves) are generally thought of as representing merchandise to be sold as a part of the regular operation of the business, and materials which through processing will become a part of that merchandise. The ordinary "supplies" caption has reference entirely or almost entirely to overhead items. Overhead items do not become physically a part of the finished product.

So we find that some corporations exclude supplies entirely from the inventory caption and from current assets, considering them rather as deferred charges because they do not become physically a part of the salable product. Commercial Solvents Corporation, for example, shows in current assets:

Inventories of Raw Materials, Work in Process and Finished Products (at the lower of cost or market)	\$4,697,823.35
and carries at the foot of the balance sheet, under the main heading "Deferred":	
Supplies Inventory	\$123,904.63

If, however, such supplies are to become a part of the cost of manufacture as distinguished from the physical product itself (as in the case of all items of factory burden), their cost will be absorbed in

that factory burden and eventually become a part of the cost of the finished product. This indicates the second line of cleavage in reference to the treatment of supplies: there are those who hold that supplies which will become a part of the cost of manufacture are properly classified as Inventory, whereas other supplies are to be treated as deferred charges. All accountants know of cases in which factory supplies are included in the inventory caption, whereas advertising supplies, for example, are buried in deferred charges.

There is, however, ample authority for including all supplies in inventory. Bell,⁹ for example, says:

"Some accountants classify supplies such as fuel, repair parts, and stationery, which are not actually ingredients of a manufactured product and are not specifically sold over the counter, as Deferred Charges, along with other prepaid expenses, but the author prefers to make a distinction in items of this character between the physical or tangible items and the intangible items, and accordingly to include the former in inventories, under Current Assets."

Montgomery¹⁰ emphasizes the factor of currency:

"In addition to the regular stock in trade, other supplies are usually on hand and should, of course, appear in the inventory, unless the total value is so small as to be negligible. These items should be separated from the merchandise stock. Such items as fuel, factory supplies and similar materials, and stores are in the same class as raw materials. Repair parts and construction items are not current assets. Ordinary repair parts and similar items which are to be used and charged to maintenance, say, within a year, are current assets and may be included at cost. * * *

"Containers may be included in current supplies, but not more than one year's supply. Stock in excess of the year's needs usually should be excluded from current assets."

Despite this weight of endorsement, it seems that the trend is toward classifying as deferred charges all supplies which do

⁹Op. cit., p. 43.

¹⁰Op. cit., pp. 195-196.

not through the process of manufacture become part of the cost of manufactured product, or at least to make more specific disclosure when the treatment is otherwise, and especially to bear in mind the principles regarding currency of inventories as affecting the inclusion of such items in current assets.

The report of Childs Company shows, however:

Inventories — Cost (Including \$32,-
430.92 of Sundry Operating Sup-
plies)\$203,136.18

Socony-Vacuum Oil Company, Inc., emphasizes the distinction between merchandise for resale and other inventories items:
Inventories—

Crude oil, re-
fined products
and merchan-
dise for resale
—at lower of
cost or mar-
ket\$121,245,396.59

Materials and
supplies — at
or below cost 10,004,540.77 \$131,249,937.36

A similar segregation is made by Central Vermont Public Service Corporation:
Merchandise, Materials and Supplies:

For Resale\$ 22,987.05
For Operation, Con-
struction and Main-
tenance 82,744.35 \$105,731.40

An even finer break-down is presented by Eastern Gas and Fuel Associates:

Inventories:
Products—
Coal, Coke and
Other Coal
Products\$4,690,024.16
Miscellaneous ... 1,144,772.21
\$5,834,796.37

Manufacturing and
Other Material
and Supplies—
Coal for Carboni-
zation\$ 878,286.76
Other Manufac-
turing Material 732,689.21
Construction and
Operating Ma-
terials and Sup-
plies 1,258,954.57
\$2,869,930.54 \$8,704,726.91

It was noted several times above that the Instruction Book for Form 10 of the Securities and Exchange Commission pro-

vides that in respect to certain otherwise dubious inclusions in the inventory caption, "generally recognized trade practices with respect to individual items * * * are admissible, provided such trade practices are stated." Mention of trade practice is found in the published report of Cities Service Company:

Materials, Merchandise and Supplies
(including construction materials
which are included in current as-
sets in accordance with what is
considered to be trade practice)
—at average cost\$8,972,348.19

The Detroit Edison Company makes a somewhat similar explanation by including the following in the heart of the balance sheet, at the end of the "Current Assets" division:

"Note—Construction materials and pre-
paid insurance are classified as current as-
sets in accordance with the 'Uniform
Classification of Accounts for Electric
Utilities' for the State of Michigan."

Many corporations consider the trade practices too well-known or too obvious to require explanation. The American Rolling Mill Company, for example, displays:
Inventories—At lower of cost or
market:

Finished and in-process products.\$7,651,344.72
Raw materials and supplies 7,770,083.39
Rolls, moulds, spares, etc. (less
reserves for condition of \$1,393,-
404.04)\$3,331,425.05

To the same effect is the showing by Superior Steel Corporation:

Inventories (at lower of
cost or market):
Finished and partly-
finished product ...\$121,942.19
Steel billets, slabs, etc. 221,510.66
Manufacturing mater-
ials and supplies 77,927.12
Rolls and annealing
pots and covers (at
replacement cost less
depreciation for esti-
mated wear) 263,414.60 \$684,794.57

There are many corporations, however, which classify items similar to rolls as fixed rather than current assets. Montgomery¹¹ says:

"On the assumption that the costs of special tools, etc., will be written off over a comparatively short period, it is contended by some writers that they should be treated

¹¹Op. cit., p. 196.

in the same manner as materials entering into the manufacture of the product itself. Items of this class, however, should be treated as fixed assets."

But, as said, the Securities and Exchange Commission has approved the following trade practices, if disclosed.

Repair Parts.—So we come to the specific matter of plant repair and replacement parts. The question of the propriety of including such items in inventories presents an interesting study. It is understood, of course, that, as the Federal Reserve Board instructs:

"The auditor should see that no machinery or other material which has been charged to plant or property account is included in the inventory."

The present problem, however, is not related to machinery or material which has been capitalized as fixed assets, but has to do with supplies not so capitalized. The value of such items can usually be obtained only by inventorying them; should they then be included in the inventory as a current asset?

It must be admitted that they are frequently so classified, but where the amount of such inclusions is relatively large or special trade practices authorize the inclusion of items which would not normally be thought of as part of the inventory, many corporations consider it proper to make separate disclosure. The United States Finishing Company makes a clear disclosure:

Inventories at the lower of cost or market:		
Work in process	\$155,254.33	
Raw materials	150,018.17	
Other materials, factory supplies and machinery spare parts.	94,072.49	\$399,344.99

Similarly, the report of Owens-Illinois Glass Company displays:

Inventories, at cost—		
Finished products, materials, packages and in process	\$ 9,396,369.07	
Manufacturing supplies and re- pair parts	1,564,342.29	
		\$10,960,711.36

American Light & Traction Company indicates the inclusion of construction materials without setting forth the amount: Inventories (materials and supplies

for construction and operations, merchandise, appliances, etc.\$4,438,324.10

(The inclusion of all supplies in inventories is not uncommon among utilities.)

International Cement Corporation furnishes an example of specific disclosure:

Inventories:	
Finished Cement and Process Stocks, at lower of cost or market	\$1,972,472.39
Packages, Fuel, Spare Machinery Parts and General Supplies, at or below cost	2,863,701.96
	\$4,836,174.35

Many corporations, however, simply include such items in a general "materials and supplies" caption without specific disclosure, although many others include them in deferred charges. Stewart-Warner Corporation, for example, displays in current assets:

Inventories, quantities and condition deter- mined by the com- panies; priced at the lower of cost or market—		
Finished product and work in pro- cess	\$2,560,791.31	
Raw materials	366,396.78	
Manufacturing sup- plies	248,451.53	\$3,175,639.62

and includes under the non-current heading of "Supplies, Prepaid Expenses, etc.": Small tools, supplies, repair parts, etc. \$264,457.76

In summary, opinion as to the propriety of including machinery repair parts in inventories is far from crystallized. It would seem, however, that any such parts which, when used, will be capitalized by being charged either into fixed asset accounts or against reserve accounts, should never be classified as current assets; that they should be treated as fixed assets from their first appearance in the accounts, or as deferred charges in the nature of suspended items.

Leased Product.—Somewhat akin to the above question is that of classifying product which is leased to one's customers instead of being sold outright. Such product is hardly a fixed asset under the definition of fixed assets in the helpful report of the Committee on Statistical Reporting and Uniform Accounting for Industry to

the Business Advisory and Planning Council for the Department of Commerce, published by the Government Printing Office in 1934 in a pamphlet entitled "Reports to Stockholders":

"This group of items summarizes the property, such as land, building, plant, machinery, equipment, and other long-time assets used in making the company's product or rendering its service. The distinguishing feature about these assets is that they themselves are not ordinarily for sale; the company's revenues come from utilizing them to make something else which is for sale."

But at the same time such product is certainly not a current asset under the definition of the Federal Securities and Exchange Commission:

"Items included in this group shall be generally realizable within one year."¹²

Perhaps recognizing the merit of conservatism in the matter of inclusions in current assets, International Business Machines Corporation includes such rented assets in "Plant Equipment, Rental Machines and Parts" and places them under the general heading "Plant and Equipment," far removed in the balance sheet from current assets:

Plant and Equipment:

Land and buildings	\$ 4,025,675.28		
Less: Reserve for depreciation	798,707.39	\$ 3,226,967.89	
Plant equipment, rental machines and parts	\$30,758,193.10		
Less: Reserve for depreciation	12,077,112.37	18,681,080.73	\$21,908,048.62
<hr/>			
Pitney-Bowes Postage Meter Company also includes such product in fixed assets, but makes an entirely separate item of the rental equipment and parts:			
Fixed Assets and			
Rental Equipment,			
at cost:			
Land and buildings,			
machinery and			
equipment, tools,			
jigs, and dies, and			
furniture	\$1,244,707.13		
Rental equipment in			
service and on			
hand, and parts			
therefor	1,545,824.93	\$2,790,532.06	

United Shoe Machinery Corporation describes the content of its "Inventories" as "including machinery on hand for lease, and parts thereof for sale or assembly." As a separate item, however, under the main caption "Investments," it includes leased machinery. A distinction is thus made between the machinery on hand for lease and the machinery actually out on lease. This entire section of the balance sheet is as follows:

Inventories	\$7,841,577.38
Merchandise, materials and manu-	
factures in process and finished,	
including machinery on hand	
for lease, and parts thereof for	
sale or assembly, at the lower	
of cost or market	
Plant Properties	11,808,376.02
Lands, buildings, machinery and	
equipment of main offices, fac-	
tories and branches: real es-	
tate \$10,300,997.97, and ma-	
chinery and equipment, \$1,507,-	
378.05	
Investments	45,672,657.81
Stocks of domestic and foreign	
associated companies, accounts	
and notes receivable from such	
companies, leased machinery,	
and sundry investments.	

A showing which makes a great appeal to a large number of accountants is that of Remington Rand, Inc., which carries the rental machines, whether in use or on hand,

in a separate caption just below current assets:

Rental Machines in	
Service and on	
Hand at cost, less	
amounts written	
off	\$3,611,721.35
Less: Reserve for	
Depreciation	1,806,750.46
Rental Machines, less Reserves	\$1,804,970.89

The showing of Compo Shoe Machinery Corporation is similar except that the caption indicates that rental machinery not in present service is included elsewhere in the statement:

Investment in Revenue-producing Ma-	
chinery in Factories of Lessees	
(after depreciation)	\$321,877.47

¹²Instructions for Form 10 for Corporations.

Accounting For Cash Relief Expenditures *

By HOWARD C. BECK, JR., Administrator
Baltimore Emergency Relief Commission

THE Baltimore Emergency Relief Commission has installed a rather successful system for accounting for relief expenditures which may be of interest to the readers of the CERTIFIED PUBLIC ACCOUNTANT. At the time the emergency public agency was established in Baltimore, public funds were very largely being disbursed through the private charity agencies, operating under their own accounting systems. The public agency was established by borrowing personnel from these private agencies to create complete public control in accordance with the regulations of the Federal Emergency Relief Administration. It was difficult at first to amalgamate these various units into one organization and to successfully install an accounting system to meet all require-

ments. This was accomplished, however, as adequately as could be expected under the circumstances, and twelve district offices were set up, each of which was permitted to have its own fund and make direct disbursements, on the signature of the District Secretary supported by authorization submitted to her by the Field Worker bearing the approval of a Supervisor.

A posting unit in the Central Office was established for the purpose of accumulating the charges against each individual relief client's account. It was soon discovered, however, that the posting became weeks and months in arrears as a result of which a correct record of what had been spent on any one family was not available. Relief disbursements were being made in the districts on the basis of an automatic card file, showing the weekly amount to be allowed. These cards were submitted to a typist weekly who prepared a list on a form known as the social worker's authorization. These forms were reviewed by the worker for the purpose of adding the names of any persons who were to receive relief or to make changes in amounts or deletions of those already listed. Upon the certification of the worker that the authorizations were correct and the approval of her Supervisor, the form was then submitted to the financial clerk for checks and a check register in duplicate to be prepared. These checks were prepared in some districts on the typewriter and in some districts by long hand. They were then forwarded with the social worker's authorization to the District Secretary, together with the check register. The District Secretary and her clerk checked the check register, the checks and the authorizations, for the purpose of determining that she had the proper approval before affixing her signature to the checks and permitting their release. This

*The *Baltimore Sun* for Thursday, July 18, ran the following as its leading editorial:

GOOD WORK

Te reduction of relief districts from twelve to five, announced by the Baltimore Emergency Relief Commission, is expected to make for more efficient administration. It is also a move for economy and will result, it is stated, in a reduction of \$116,846 in administrative expenses.

Under the excellent direction of Howard C. Beck, Jr., municipal relief administrator, the city has largely escaped the trials and tribulations that have been met in many other communities in securing economical and at the same time humane handling of relief funds. In a charity of this sort, embarked upon without accurate knowledge of the magnitude of the demands or of the period during which they would continue, it is exceedingly difficult to prevent waste. There are many opportunities for it and the easy answer to charges of extravagance is that, when human suffering is involved, it is uncharitable to insist that money be husbanded. To meet needs as they arise, without being overliberal on the one hand or too parsimonious on the other, calls for exceptional executive ability and clear-headed understanding.

Mr. Beck and those associated with him have displayed these qualities, there is reason to believe. They have done and are doing a work that deserves high commendation.

plan worked out rather successfully but it resulted in a more or less automatic distribution of relief which was not to be desired. In order to overcome this difficulty and to bring the posting of ledger accounts absolutely up-to-date a plan was devised of centralizing the writing of checks in the Central Office. Authorizations are prepared on a numbered form for every case on relief and are submitted to an addressograph division which makes up an addressograph plate for each relief client, showing the name of the individual to whom the check is to be drawn, his address, the family name under which the case is known, and certain coded data identifying the worker on the case, the district and the number of persons in the family. From these addressographed plates, payrolls, having columns for the distribution by classifications of relief, are pre-addressographed and sent to the district office for the recording of relief allowances. Immediately after the payrolls are addressographed the plates go to a machine to addressograph the checks (drafts) in the same order as they appear on the payroll. These checks are retained in the Central Office and the payrolls forwarded to an Office Manager, who has been established in each district. Payrolls are staggered so that a group of Field Workers assigned for each day of the week are required to come into the financial office and make their posting of relief authorizations to a record of relief granted card (ledger), showing the total and distribution of weekly allowances to relief clients. These entries are initialed by the worker for identification purposes. In this manner the ledger card is posted absolutely up-to-date before the expenditure is made and constitutes the original authorization. From this information the posting clerk in the financial office of the district transcribes the amounts authorized from the ledger card to the payroll, balancing both records for the purpose of verification of total and distribution. Four days before the checks are to be released, the payroll, approved by both the worker and her supervisor, is submitted to the Central Accounting Office for imprinting the amount on the checks. As the payrolls are received in that office they are turned

over to a National Check Writing Machine operator together with the pre-addressographed checks, both of which are inserted in the machine to have the authorized amount mechanically printed upon them. This machine dates, numbers, prints the amounts in two places, signs the checks, and prints the amount and number of the check on the payroll, accumulates and prints a total on each page of the payroll, a total on each district recapitulation, and prints a grand total which is under lock control for the day's disbursements. It is possible under this method to verify the accuracy of additions as each page of the payroll is completed, as well as to have a subsequent verification when the district recapitulation sheet is totaled mechanically. A final proof on the daily recapitulation sheet of all districts is available to the Disbursing Officer by releasing the locked total.

The payrolls are audited by a group of persons assigned to that function in the Central Accounting Office and are then released for the purpose of having surplus commodity tickets attached to them and a milk check which is good for one week's supply. The policy of giving milk in kind was adopted to insure an adequate supply to young children and is mandatory up to twelve years of age, one quart for each child under six and one pint to a quart up to twelve. Under this arrangement it has been possible to contract for milk at a 4½¢ reduction per quart. The milk check or ticket is mechanically printed by a National Accounting Machine on the basis of milk authorizations shown on the payroll. The attaching of the surplus commodity tickets and the milk tickets to the checks results in verification of the fact that the checks have not gotten out of order and are definitely in accordance with the payroll authorization. The checks are then sent to the district. The Field Workers then have an opportunity to withhold any checks where the relief situation may have changed, between the time they posted their authorization on the ledger cards and the checks are received. When the checks are released by the worker they are routed for delivery to messengers who insert them in a window envelope upon which is written the amount and date of the check. This

envelope has space for five entries and provides a means of securing the client's signature when the check is delivered by the messenger. This method also makes it possible to compare signatures week by week to see that the checks are going to the person for whom intended.

As a result of the installation of centralized check writing it has been possible to effect a savings of \$87,000 per annum as compared with the former system of having each district write its own checks, prepare social workers authorization and check registers, and subsequently have the bank accounts reconciled in the Central Office.

Coincident with establishing the centralized check writing plan, which as a matter of fact is a centralized draft writing division, we created our own Banking Department. This was done because the banks had proposed to charge the relief administration $1\frac{1}{2}\text{c}$ for each check handled. Under the draft plan they were willing to cash the drafts without charge, accepting no responsibility for the original signature. Our draft division has been one of the most successfully operated departments, and is well worthy of mention. When the drafts have been completely prepared through the Central Accounting Office and the total determined, a check prepared on the main bank account of the organization is deposited to a draft account in any one of three banks depending upon the bank on which the drafts were drawn for that day. Before this check is signed by the Administrator, however, it is compared with a district control sheet, that comes to him independently of the central draft writing division control, indicating the amounts the districts have authorized in direct relief. An accumulation kept in his office of these authorized amounts assures him that the check submitted is in accordance with authorizations. As each check is deposited in bank, an individual daily account is kept in the banking division indicating the total debit against the bank for that day's drafts. It is likewise posted to a general control of all cash in the bank through which the drafts are drawn. As drafts clear daily from the various banks they are submitted in bundles with a tape at-

tached. These tapes and bundles are immediately verified by adding machine operators as to accuracy, authenticity and the examinations of endorsements. The banks are notified by letter of acceptance of the charge made or any discrepancy by 12:45 P. M. The drafts are then assorted into numerical order, which at the same time breaks them down into daily order. Having been so broken down, they are again relisted by days, and balanced against the total of the first run. After this verification a credit entry is made against the bank on the daily ledger and control sheet so that there is available the amount of drafts outstanding for each day of issuance and a general control of outstanding drafts by banks. After thirty days the accounts are reconciled with little effort as the number of outstanding drafts has been reduced to a minimum. Many days, ledger sheets actually balance themselves in less than thirty days as the last one is paid.

Although I have not gone into the many little details of our system I believe it can be understood why I am of the opinion that the Baltimore relief disbursement plan will compare favorably with any in the country. It is practically self-balancing and has worked out to the entire satisfaction of the Social Division with a minimum of effort and a minimum of cost.

Natural Aptitudes

In the New York *Post* sometime since, it was recorded that Johnson O'Connor of Stevens Institute, had developed a test of ability to do accounting that was remarkably accurate in discovering natural attributes. In his recent book on mental measurements, "Psychometrics," he shows that girls do better than boys up to about the age of 16. At that age girls cease to improve as rapidly. Boys maintain their rate of improvement until about 20, which gives, according to this determination, the male of the species a little advantage over the female of the species as time goes on. It is interesting to note that the article in question is closed by the statement, "These tests can be given only by a psychologist."

The Lobbyist Bill (S. 2512)

PRESENTATIONS BEFORE HOUSE JUDICIARY COMMITTEE

JULY 26, 1935

by LOUIS G. CALDWELL, Washington, D. C., American Bar Association

I AM here pursuant to instructions given me by the Executive Committee of the American Bar Association. At its meeting early in May, the Executive Committee adopted a resolution opposing the bill now before you (S. 2512). This action was affirmed by the Association at its Annual Meeting held in Los Angeles last week. Two members of the Executive Committee were designated by the President of the Association to appear before you at this hearing, Mr. L. Barrett Jones of Jackson, Mississippi, and Mr. Joseph F. O'Connell, of Boston, Massachusetts. Unfortunately, it has proved impossible for either of them to attend, and I was requested by long distance telephone yesterday to appear in their stead.

In a way it is a matter of regret that it has fallen to my lot to voice opposition to any bill directed at the evils which I assume this bill is intended to curb. For several years, first as chairman of the Standing Committee on Communications and later as chairman of the Special Committee on Administrative Law, I, with my several associates, perhaps have been as active as anyone in condemning, and in attempting to expose, some of the questionable practices which we all know are occasionally indulged in before some of the federal executive and administrative agencies, sometimes by lawyers, sometimes by laymen, and sometimes by laymen holding themselves out to do work which is really of a legal nature. While the jurisdiction of these committees has not extended to the activities of lawyers in furthering or opposing legislation, I imagine the evils are pretty much the same and probably are due to the same individuals. At any rate, so far as I personally am concerned, and I am sure the same is true of the Executive Committee and of every thinking

member of the bar, every well-directed effort to stamp out questionable practices in dealings with Congress and with Governmental agencies, whether by lawyers or by laymen, **deserves the applause** and the cooperation of the entire bar.

In my opinion, however, the bill before you will not accomplish this purpose; in fact, it comes very close to a move in the opposite direction and, while putting no substantial check on any pernicious activity, it subjects the honorable members of the legal profession to an almost inconceivable degree of indignity, of annoyance, and of prying curiosity. As I shall attempt to show you, it penalizes the sort of men you would want to have appear before you, because you know you can trust their integrity and their ability and learning, and it favors the man whom all of us condemn and none of us wants to protect.

Let me analyze briefly the provisions of this bill. Take the first clause—

“That any person who shall engage himself for pay, or for any consideration * * *”—

I shall come back to this clause to point out that it is precisely in those cases where no consideration is paid that you will find a large proportion of the most objectionable practices. I want first, however, to show the immense scope of the first section. In a general way, it covers three broad fields of activity, as follows:

1. “To attempt to influence legislation, or to prevent legislation, by the National Congress, or
2. “to influence any Federal bureau, agency, or government official, or government employee, to make, modify, alter or cancel any contract with the United States Government, or any

United States bureau, agency, or official as such official, or

3. "to influence any such bureau, agency, or official in the administration of any governmental duty, so as to give any benefit or advantage to any private corporation or individual."

Anyone who engages in the first of these fields of activity, must

a) register with the Clerk of the House of Representatives and the Secretary of the Senate, and give his name, address, and the name of the person or persons by whom he is employed and in whose interest he appears or works as aforesaid, and must make a new registration every year;

b) state how much he has been paid, and is to receive, and by whom he is paid, or is to be paid, and how much he is to be paid for expenses, and what expenses are to be included, and set out his contract in full; and

c) at the end of each three-months period, file a detailed report of all moneys received and expended by him during such three-months period in carrying on his work as aforesaid, to whom paid, and for what purpose, and the names of any papers, periodicals, or magazines in which he has caused any articles or editorials to be published.

Anyone who engages in the second and the third fields of activity above enumerated must comply with the same requirements but registers and makes his statement and tri-monthly report to the Federal Trade Commission.

Any person who engages in any of the three fields without first complying with the provisions of the Act is punishable by fine of not more than \$5,000 or imprisonment for not more than twelve months, or by both.

Let us glance for a moment at each of these three fields of activity. Take, first, attempts to influence legislation or to prevent legislation by Congress. The members of this Committee are all lawyers. I am sure that each of you recognizes that it is perfectly proper for a lawyer to appear before you or any other committee of Congress, in behalf of a client, with or without compensation, and to present facts

and arguments for or against proposed legislation. On matters of law, such as analysis of the provisions of a bill in the light of the decisions or discussion of its constitutionality, or the drafting of amendments, you will ordinarily want to hear only from lawyers and even on presentations of fact you will recognize that frequently a lawyer is better able to marshal the relevant facts than a layman. I believe you will concede that if the bill is one on which there has been no hearing, or if new facts and arguments arise relating to a bill on which there has been a hearing, or if no bill has been introduced and the object is to draft one and convince a member of Congress that it should be introduced, it is legitimate that a lawyer should be engaged to take up the matter with you, or any one of you individually. He may do this by personal call at your office, he may meet you at lunch, he may telephone or telegraph you from your home district, or he may talk to you in your home district during vacation. This bill covers all these situations and many more. Now, it goes without saying that this lawyer ought to tell you his name and whom he represents. I ask you, however, to search your own recollections to see if you can recall any case where he has not told you, at least if you did not know without his telling you. My experience at these hearings is limited but I have yet to see a case where this was not done as a matter of course. At any rate, you will agree that there is no substantial evil of this sort.

Now, what are the evils? A lawyer (or a layman) may misrepresent facts to you or misquote from cases, just like some lawyers do in court. This bill won't help that. The lawyer, however, is already subject to very severe penalties for conduct of this sort, suspension or disbarment from the right to practice. No layman is subject to such penalties.

Another evil, which this bill does not remedy, and I do not believe any bill can remedy, is that sometimes a lawyer (or a layman) gives the impression that through friendship or political connections or what-not he has influence with you that can obtain results which the merits of a case

may not justify. If a lawyer does this, and I say it with all the earnestness at my command, he ought to be disbarred and I believe he is subject to disbarment. You may ask me why that it not done now. I grant it is not being done to the extent it should be, and, if you will indulge me, I shall return to the subject in a moment to attempt an answer. *This bill does not stop that sort of practice. I think, however, that the real nature of the evil is not always correctly pictured.*

The lawyers (and the laymen) that both you and I have in mind, do not, so far as I know, wield the influence they claim. They may meet you at teas, or on the golf course, or in the hotel lobby, and then send back glowing pictures of progress to their clients. But I can't believe they, or their dinners and parties, or their boxes of cigars, really fool any of you. If they do it once, they do not the second time. The tragedy is that they do fool some sucker clients, but I don't know how any bill will stop that.

I ask you to go one step further and agree with me that a large proportion of attempts to influence legislation proceed from persons who are paid no money and receive no other consideration in a legal sense. I refer to politicians, whether in office or out, perhaps back home or right here at the seat of the National Government, who ask you to vote for or against a bill because they, in turn, have been requested so to do by some constituent who may be a lawyer. Is it fair to leave this sort of case untouched and penalize the lawyer who comes before you openly and honestly? Again, this bill does not cover the case where the client himself chooses to present his own case to you. He can take you to lunch as much as he pleases and need neither register nor report. This bill tends to drive clients to pursue this method of approach (probably under the direction of their own lawyers) and to drive lawyers out of a legitimate field of legal practice.

I shall pass over the second field of activity, namely, government contracts, since I know very little about it and in any event I imagine that there is a close analogy between it and this third field. The third field covers practice before all executive

and administrative bureaus, agencies and officials. At this point the far-reaching effect of the bill staggers the imagination. In the studies I have made in connection with the work of our Special Committee on Administrative Law, I have calculated that there are 73 tribunals in the Federal Government with judicial functions, that is, power to make decisions affecting the rights of individuals, after notice and hearing, at which evidence is heard and arguments are made. These are proceedings for the most part requiring the services of lawyers. These agencies handle some 267 classes of cases, in 59 of which there are statutory provisions for appeal to the courts and in the others a measure of judicial review can be had by mandamus or injunction proceedings. Of the 73 tribunals, 42 are scattered through the 10 regular Government Departments, 21 are the so-called independent boards and commissions, and 10, for want of a better name, I have called executive agencies. In this total of 73, I have not included several tribunals which are courts in everything but the constitutional sense, such as the Court of Claims, the Court of Customs, the Court of Customs and Patent Appeals, and the Board of Tax Appeals. I have only included instances where the agency exercises not only judicial functions but also executive or legislative functions or both.

I do not ask you to accept the number. Opinions will differ as to what is and what is not a judicial function. Whether the number is 73 or 93 or 53 makes little difference. You know the type of agency I am referring to. In the Departments it includes the Secretary of Agriculture in administering the Grain Futures Act and the Packers and Stockyards Act; the Secretary of Commerce with his Commissioner of Patents, the Patent Board of Appeals and the Shipping Board; the Secretary of the Interior with his General Land Office and the office of Indian Affairs, etc., etc. Among the independent agencies it includes the Federal Communications Commission, the Federal Power Commission, the Federal Trade Commission, the Interstate Commerce Commission, the Securities and Exchange Commission, etc., etc.

Some of these agencies already have long and well-established bars, with machinery for disciplining all lawyers. Among these are the Interstate Commerce Commission, the Patent Office, and the Treasury Department. Others are well on their way to the same end. I wish time had permitted me to gather and present to you figures as to the numbers of persons practising before these agencies that would be affected by this bill. I have the figures as to only the Treasury Department, where approximately 35,000 persons are admitted to practice, and the Board of Tax Appeals, where approximately 17,000 persons are admitted to practice. Remember that many of these agencies are ambulatory; they hold hearings all over the country in a laudable endeavor to avoid subjecting the individual to the expense and the inconvenience of a hearing in Washington. They do this sometimes through examiners, as in the case of the Interstate Commerce Commission and the Federal Trade Commission, and sometimes through sending members of the Commission out on the circuit. Several of the Departments, notably the Department of Agriculture and the Department of Commerce, have offices all over the country and sometimes abroad. This means that lawyers everywhere are touched by this bill (not merely lawyers in Washington) and, for a single, isolated case before one of these agencies, must be subjected to this elaborate paraphernalia. And, all that will be gained, will be the satisfaction of someone's curiosity as to the amount of their fees and their expense accounts.

I have told only a fraction of the story. In addition to these 73 agencies exercising judicial functions, where it is not only proper but usually necessary to retain lawyers, there are, at our most recent count, 1314 instances of delegated legislative power on our federal statute books, that is, the power lodged in some department or independent commission to make regulations having the force and effect of law, sometimes with and sometimes without previous hearing. There are well over 100 instances wherein these agencies have the power to grant or withhold licenses, permits or similar instruments which are necessary prerequisites to engaging in

some business or other activity, usually with some requirement as to notice and hearing. I need not tell you that the services of lawyers are legitimate and frequently necessary in dealing with such agencies. I would not dare guess how many of this country's lawyers have occasion to deal with one or the other of these agencies at least once a year. It would be a fairly large proportion of the bar.

Consider the practical difficulties. This bill is apparently premised on the theory that all persons who engage in any of these fields of activity are definitely employed over a period of time under a contract with one or at most with a very few persons. There are, of course, such persons. There are the executive secretaries of some trade associations, I suppose, whose principal activity in Washington is to work on legislation or with certain Government Departments. There are a few lawyers fortunate or unfortunate enough to be on the payroll of a single large corporation, with nothing to do but work in Washington for that corporation. But everyone knows who they are, whom they represent, and that they are not here for philanthropic purposes. It is my impression that the most successful so-called lobbying is by persons who not only do not conceal but openly proclaim all this.

Take, however, your attorney in general practice in Washington. Most of his work, either in connection with legislation or before administrative agencies, will be for out-of-town clients, perhaps coming to him largely through other lawyers. The work may consist in a long, drawn-out proceeding before the Federal Trade Commission or in a mission to go see Senator X and explain to him that his bill is unconstitutional. It may be for a client that has come today and goes tomorrow (who may or may not pay his bill); it may be for a client that is on a retainer basis under which all his work is done at so much a month. Take my own case. Our principal office in Chicago, which is comparatively large, keeps our small office in Washington going at a break-neck pace with a bewildering variety of work. I am thankful that very little of it has to do with legis-

lation, but occasionally it does. A large share of it is for clients whom we represent in all matters in Chicago and who have an occasional need for legal work in Washington. I would not know, and no member of my firm would know in many cases, how to report on how much had been paid for the work in Washington. I suppose we could guess. The practical difficulties would, I am sure, be many times greater for some of the large Washington firms with clients coming to them directly or through other firms scattered from coast to coast.

Again I can see that a morbid curiosity as to fees might be satisfied and that each lawyer's list of clients would be made available for inspection by all other lawyers. But I am sure that these objectives are not the ones which you have in mind.

Again, also, the real evils are left untouched by the bill. One evil is of the sort I have already mentioned—the lawyer or layman who professes to sell some sinister influence over a commission or an administrative official. And I am afraid it is true that occasionally there is something to the claim—usually through ability to exercise political pressure or an inside track to the files. This bill won't stop that. Yet, if there is anything that could be done to that end, I do not know of anything more to be desired.

That, however, is not the only evil and, in my estimation, it is not the principal evil. If there are administrative decisions made in Washington on the basis of facts or arguments off the record, I must say bluntly that a great deal of the responsibility rests on not only lawyers and laymen but also on government officials, officers of State and National political party organizations and even Members of Congress who write or telephone to these administrative agencies, or call on them, and urge decisions one way or the other. This, to my mind, is not so much the fault of the individuals as of the system itself with its combination of judicial functions, in exercising which a judicial independence and demeanor should be preserved, with legislative and executive functions, in exercising which it is or may be proper to talk in chambers, so to speak. This, of course,

takes us into another field but, in passing, I want to call your attention to a bill introduced this year by Senator Logan (S. 213) designed to prohibit this very evil which has done so much to undermine the judicial independence of some of these agencies, and has degraded the practice of law before them almost to the depth where it might rightly be called lobbying. The Executive Committee of the American Bar Association, at the recommendation of our Committee, endorsed the bill, and it was favorably reported by the Senate Committee on the Judiciary. But that is as far as it went. In any event, *this* bill not only will not put a damper on this evil; it may tend to promote it by driving the honest lawyer out of practice before such agencies.

I might well stop at this point but I do not want to leave the subject without a suggestion that is intended to be constructive. This will have to be on my personal initiative, since my only instruction is to oppose the bill before you *in toto*. I should like to be able to offer an amendment that would cure its defects and at the same time further what I understand to be its real objectives, but, after considerable thought and discussion with my associates, I am unable to do more than urge that if this bill is to be passed it contain a proviso exempting all lawyers in good standing. This, I realize, would possibly not be satisfactory to some of the proponents of the bill, although there would be justification for it in the fact that lawyers are already, theoretically at least, under a system of discipline far more rigorous and effective than this bill provides or could be made to provide. Their profession, for which they have been trained and found qualified, is to represent others in legal matters for compensation.

To me the real evil is more fundamental, and touches on problems on which our Committee has been laboring arduously for two years. It begins with what I believe to be an unsound combination of judicial functions with other functions. It is aggravated by a bewildering assortment of tribunals exercising such functions, with endless varieties of rules on practice and procedure, on admission to practice and disbarment and what not. I am not going to

argue now that you should attack the fundamental evil; it will have to be approached cautiously and slowly so as not to lose the advantages, actual or claimed, that have been achieved by administrative tribunals. But the superficial evils can be, in part, mitigated by the establishment of what I shall call, for want of a better term, an administrative bar, admission to which would carry with it the right to practice law before any federal administrative agency (and, if you will, before Congress as well) and disbarment from which would render the offender ineligible to practice before any such agency. This need not, I submit, prevent any agency from imposing additional requirements or qualifications if it chooses, although I would hope there would not be too much of this. There would have to be miscellaneous exceptions and restrictions. On the whole, however, it would provide the one ingredient which is generally present and effective in each of the states and, so far as federal administrative agencies are concerned, is woefully lacking in the District of Columbia—the self-discipline of a profession which, if given the proper machinery, ought to be able to purge itself of the unethical practitioners. I urge you to consider carefully the possibilities along some such line. Enactment of this hastily-conceived measure will degrade the profession of the lawyers to the rank of the lobbyist in its invidious sense, it will expose the entire profession, every federal agency and yourselves to the prying and snooping of persons whose curiosity is not legitimate, and it will play into the hands of the very persons whose activities we join in condemning.

SUBSEQUENT MEMORANDUM

July 26, 1935.

Pursuant to the suggestion made during the hearing held before your committee this morning, at which I appeared in behalf of the American Bar Association, I have hurriedly drafted the enclosed proposed amendments to S. 2512 and am sending a copy of them and of this letter to each member of the committee. This is being done on my personal responsibility since the Executive Committee of the Associa-

tion has had no opportunity to express approval or disapproval of the proposals except as hereinafter set forth.

The proposed Section 8 in the enclosed draft represents an attempt to eliminate from the bill strictly professional services which, either because of their nature or because of safeguards already in force, do not involve the evils against which, I understand, the bill is directed. I have not found it possible to express in apt language one other class of service which, if possible, should in my opinion be eliminated; I refer to the occasional service such as that rendered by a lawyer who calls a Congressman by long distance telephone to communicate support for or opposition to a particular bill.

The proposed Section 9 in the enclosed draft represents an attempt to prohibit one of the evils which, in my limited experience, is doing most to undermine the judicial independence and the integrity of Federal administrative agencies, and, I submit, should be part of any legislation aimed at eradication of pernicious practices before those agencies. It is a reproduction of S. 213, introduced by Senator Logan on January 4, 1935 (favorably reported by the Senate Judiciary Committee on February 19, 1935, Report No. 126) plus an amendment in the form of a proviso which Senator Logan later proposed because of objections raised to the bill on the floor of the Senate. The changes made in the existing statute are shown by the lines and the underlining. Except for the amendment the bill has been endorsed by the Executive Committee of the American Bar Association.

Although submitting these amendments, I must reiterate the views which I expressed this morning, that the bill not only does nothing to eradicate the evils against which it is aimed, but tends to promote them and at the same time places an unjustified burden and stigma on all ethical members of the profession. I believe, furthermore, that there is a great deal to be said for treating first and separately the first class of activity covered by the bill, namely, attempts to influence legislation, and possibly also the second class, having to do with government contracts. The third class, covering practice before all execu-

tive and administrative agencies, should be carefully studied before so drastic a statute is enacted, and the legislative remedy which may be found necessary for any evils in this type of practice might well be postponed until such a study has been made.

In behalf of both the Association and of myself, I want to express appreciation for the courtesy extended by you and the other members of the committee in postponing the date of hearing and in giving us an opportunity to present our views.

Proposed Amendments to S. 2512

Amend. S. 2512 by adding the following:

Sec. 8. The provisions of this Act shall not apply to, or be construed as affecting,

(a) Professional services in drafting bills, amendments thereto, resolutions, orders, rules, regulations, contracts, modifications of contracts, bids, offers, applications, petitions, pleadings, or other writings in drafting which professional services would normally be rendered, in filing in any such writing, in preparing briefs or arguments thereon, or in advising clients and rendering opinions as to the construction or the effect of any such writing proposed or pending before the National Congress, or any committee or subcommittee thereof, or any Federal bureau, agency or Government official;

(b) Professional services in appearing and in presenting evidence or arguments at public hearing, or hearing or other proceedings held pursuant to statutory requirement, before any committee of the National Congress or before any United States bureau, agency or official, provided such hearing or other proceeding is a matter of public record and that the person rendering such services shall state, and the record shall show, his name, address, and the person, association, or corporation, one or more, by whom he is employed and in whose interest he appears;

(c) Professional services rendered in practicing before any United States bureau, agency or official which exercises, or by law is authorized to exercise, control over the admission and disbarment of persons practicing before it or him, or which has, or by law is authorized to have, rules and regulations covering such practice,

with respect to any matter subject to such control or such rules and regulations; and

(d) Bona fide requests for, and endeavors to secure, information as to the status and nature of any pending or proposed legislation, or with respect to the making, modification, alteration, or cancellation of any contract, or with respect to any proceeding pending or proposed before any United States bureau, agency, or official, where no impropriety is involved in the obtaining or giving of such information and such information is, under the law, legitimately open to the public or to persons of the class in whose behalf the request or endeavor is made.

Sec. 9. Section 113 of the Criminal Code of March 4, 1909, 35 Stat. 1109 (U.S.C., title 18, sec. 203) is hereby amended to read as follows:

"Sec. 113. Whoever, being elected or appointed a Senator, Member, or Delegate to Congress, or a Resident Commissioner, or a National or State Committeeman or Committeewoman or *State or National officer* of any political party, shall, after his or her election or appointment, and either before or after he or she has qualified, and during his or her continuance in office, or being the head of a department, independent establishment, board, commission, or other instrumentality of the United States, including corporations in which the United States shall own any part of its capital stock, or other officer or clerk in the employ of the United States in any such department, independent establishment, board, commission, or other instrumentality of the United States, including corporations in which the United States shall own any part of its capital stock, shall, *before any such department, independent establishment, board, commission, or other instrumentality of the United States, including corporations in which the United States may own any part of its capital stock whatever, render any service or assistance of whatever character for or on behalf of any person, firm, corporation, or any other association in relation to any proceeding, contract, claim, controversy, charge, accusation, arrest, imprisonment, or other matter or thing in which the United States is a party or directly or indirectly interested*, shall be fined not more

than \$10,000 or imprisoned not more than two years; and shall, moreover, thereafter be incapable of holding any office of honor, trust, or profit under the Government of the United States";

"Provided, however, That the words 'render any service or assistance of whatever character' shall not be construed as including (a) a request for information as to the status of any proceeding, contract, claim, controversy, charge, accusation, arrest, imprisonment, or other matter or thing in which the United States is a party or directly or indirectly interested; or (b) any request that any such matter be expedited; or (c) any transmittal of papers, briefs, or other matters to a department, independent establishment, board, commission or other instrumentality of the United

States, including corporations in which the United States shall own any part of its capital stock; or (d) the making of engagements for any person to discuss such matters with such instrumentalities of the Government of the United States; or (e) appearing before any department, independent establishment, board, commission, or other instrumentality of the United States, including corporations in which the United States shall own any part of the capital stock, concerning any such matter in which the people have a common interest: *Provided further*, That in doing the things herein allowed, except in (e), there shall be no expression of opinion as to the merits or demerits of any such matter pending before such instrumentalities of the United States herein mentioned."

American Society of Certified Public Accountants

Mr. Chairman and gentlemen, my name is Durand W. Springer. I am secretary of The American Society of Certified Public Accountants, and I am appearing in its behalf.

At the close of the memorandum that I am submitting to the committee, there will appear a telegram from the chairman of our Federal legislative committee, who had made arrangements to be here on Tuesday, the date originally set, but found himself unable to be here today.

You will note that every State in the Union has a certified public accountancy law, under which a board, following an examination, grants to the successful candidates a certificate as such which permits him to practice within that State.

The development of business, of course, has overrun State lines, so that there is practically the same interchange of comity as regards certified public accountants, to move from one State to another, as there is with lawyers with regard to the legal practice.

The American Society of Certified Public Accountants bears practically the same relationship to the accountancy profession as the American Bar Association does to the legal profession.

It is composed of those who hold C.P.A. certificates and are members of their State

societies of certified public accountants.

In view of the time limitation, I am simply going to turn in this 4-page paper, and come directly to two paragraphs, one of which answers the question which you, Mr. Chairman, have put.

Following the statement of the representative of the Bar Association, and along the same line, I have this to say in a paragraph:

The United States Board of Tax Appeals has a registration list of 17,000 attorneys and certified public accountants who may practice before it under such regulations as it has prescribed. The United States Treasury has a registration list of 40,000 consisting of attorneys, certified public accountants, and agents who are authorized to practice before the Treasury Department under regulations laid down by it. The Interstate Commerce Commission has a group of 6,000 practitioners and so on down the line. Some of these contacts are needed in Washington and some in different sections of the entire country.

I think you will be interested in some other matters that appear in this document but, coming to your question, it is respectfully suggested that if a study has not been made by your committee of the situation that actually exists in the various Govern-

mental bureaus, agencies and departments, and surrounding Government officials and employees, it should be done.

Senate 2944 was introduced after the bill that you now have under consideration. It went to the same committee in the Senate that passed favorably on this bill, and on a suggestion that a study should be made by them as to what the exact situation was, that committee finally reached the decision that they would report adversely on that bill, not exactly similar to this and yet bearing on the same general problem.

Our first suggestion is that the bill as it is now before you, if you should deem it necessary to pass one, should be amended by retaining only the portion of the same relating to legislation; and secondly, if it is desired to cover the other part of the bill, a new section, No. 7, the present 7 being numbered 8, should be introduced, which would read:

"Nothing herein contained shall apply to any person who shall appear before any Federal department, bureau, commission, or other executive or administrative agency of the United States as the representative of another or on his behalf, to present to, prosecute before, or compromise with any such department, bureau, commission, or other executive or administrative agency, any claim, proceeding, or other matter in which the said person or the person whom he represents may be interested, and in which the appearance by any such person is in accordance with established rules of practice or procedure, if any, of such department, bureau, commission, or other executive or administrative agency."

I think you gentlemen, on studying the matter, will find that there is an increasing tendency in the various Government bureaus and agencies to know by registration those who should appear before them, and that by their regulations they are able to care for the problem that you have in mind much better than it can be cared for by a general bill, due to the fact that conditions differ so in different departments.

It would be very hard to write a definition of the word "influence," for instance, or several of the other terms in the bill

in such generalities as to cover all the cases.

You are about in the same position that N. R. A. was when it started out and attempted to secure a definition of "cost" that would cover all of the codes that might come before them.

Then, after having given the subject considerable discussion, they came to the conclusion that it was impossible and to say nothing about its being unadvisable.

So that our suggestion is, with a paragraph of that sort, you place the responsibility on each of the Government groups to care for the conditions over which it presides.

I thank you.

The Chairman. That was a very fine statement. Thank you, Mr. Springer.

MEMORANDUM by Durand W. Springer, Secretary of The American Society of Certified Public Accountants, appearing for the Accountancy Profession Representing Independent Accountancy Practitioners.

Senate Bill 2512, now under consideration by your Committee, was introduced by Senator Black.

In its original form one entire section was devoted to a definition of "lobbying" and part of another section was devoted to defining a "lobbyist."

A Subcommittee of the Senate Judiciary Committee held a hearing, at which time, according to the record thereof, Senator Black explained the conditions which prompted the introduction of the bill, Professor Herring of Harvard University made certain suggestive changes in phraseology in the bill as affecting definitions, and a Mr. Thatcher, the Washington representative of the Farmers National Grange Corporation, endorsed its general principles.

Senator Black in his opening statement, among other things, said:

"The present bill goes farther than bills heretofore have gone in defining lobbyists, in that it includes the effort to influence Government agencies, bureaus, and departments. * * * Therefore the bill approaches the subject from two viewpoints. One is to define as a lobbyist anyone who attempts to influence

Congress for pay or other consideration. The other is to define as a lobbyist anyone who attempts to influence bureaus and governmental agencies in connection with contracts or in connection with the performance of their duties."

No effort is made in the phraseology of the bill as passed to define the word "influence" or to distinguish between influences which may be proper and those which are recognized by all as improper. The bill provides that lobbyists on legislative matters shall register with the Clerk of the House of Representatives and with the Secretary of the Senate, and that lobbyists "in connection with Federal bureaus, agencies, governmental officials, or employees" shall register with the Federal Trade Commission.

During the progress of his remarks, Senator Black further said:

"The idea I have in connection with the bill is this: Those who are legitimately here for the purpose of openly and frankly presenting their views to Congress or to the Senate will not object to this measure. As a matter of fact, as I have said, all to whom I have talked about it favor it. We do need to have exposed the secret lobbyist."

It will be noted that only one of the two suggested purposes of the bill is referred to in this statement and I do not find that the other is specially referred to at other points in the hearing, although, as a matter of fact, most of the illustrations given by the Senator did refer to a type of lobbying with governmental officials which I am sure we are all agreed should be eliminated.

Professor Herring made a number of suggestions as to proposed changes in phraseology, and did distinguish in his remarks, but not in proposed phraseology, between what might be very properly termed perfectly harmless influence and that type which was pernicious in its character.

At the conclusion of the hearing it was agreed that "subject to the perfecting amendments which have been suggested and any others upon which the members of the subcommittee might agree" the bill should be reported favorably to the full committee. When, however, the bill was passed by the Senate, Section 2 was elimi-

nated and the considered changes in phraseology had not been written into it.

During the hearing there was considerable discussion concerning the manner in which publicity should be secured.

This brief review brings us to the bill as it stands.

With regard to the provisions that seek to require the registration of and report from those who are endeavoring to influence legislation, it is believed that everyone will agree that some such a requirement is in the interest of good government. When it comes to the registration of those who may have contacts with departments, bureaus, commissions, agencies or employees of the Government, the word "influence" is susceptible of such a broad interpretation as to seriously inconvenience the Government and its citizens from carrying on their essential activities in the ordinary and an orderly manner.

The United States Board of Tax Appeals has a registration list of 17,000 attorneys and certified public accountants who may practice before it under such regulations as it has prescribed. The United States Treasury has a registration list of 40,000 consisting of attorneys, certified public accountants and agents who are authorized to practice before the Treasury Department under regulations laid down by it. The Interstate Commerce Commission has a group of 6,000 practitioners and so on down the line. Some of these contacts are needed in Washington and some in different sections of the entire country.

In all these conferences the term "influence" might technically be said to be exerted. Any Government official or employee who did not undertake to present his case in a manner to secure the approval of the citizen for whom the particular agent was appearing would not be worth retaining on the Government payroll. Any representative of the citizen, appearing for and on behalf of the citizen in a controversy with the Government, who did not endeavor to present the citizen's side of the case so as to meet the approval of the Government official or employee would not be a worthy representative of the citizen.

Influences of the proper sort, confined

to the presentation of facts and arguments, must be present on all such occasions. To require all of the representatives that must deal with the Government for and on behalf of their clients, all of whom are citizens, to go through the process of registering in matters of this sort is, in our judgment, absurd as well as expensive. A certain freedom of action on the part of citizens in dealing with their Government is essential to mutual respect.

A single illustration, using perfectly legitimate interpretations of the phraseology of the bill as it now stands, will, I believe, show its absurdity. Everyone will agree that the Federal courts are governmental agencies. Everyone will agree that attorneys either have been or expect to be compensated for appearing before the court. Everyone will agree that if the attorney does his duty he must endeavor to so "influence" the court—both judge and jury—by his presentations as that his client may be benefited. Under a strict interpretation of the bill, each attorney, before entering into an engagement with a client, would find it necessary to register with the Federal Trade Commission and thereafter file a report every three months until the case was finally closed. Such was evidently not the intent of the framers of the bill.

All presentations of this character should be based on an open-and-above-board plan, and that method of approach should be recognized. The use of the single word "influence" in the bill merely gives an opportunity for still further complicating legitimate business and Governmental relationships. It will add one more to a constantly increasing demand which is being made on citizens by the Government which has been set up to represent them in a collective capacity. There are certain well-defined procedures which have been established by governmental agencies and which now provide definite methods by which this relationship must be maintained.

It is respectfully suggested that if a study has not been made by your committee of the situation that actually exists in the various governmental bureaus, agencies and departments or surrounding Government officials or employees, it should be done.

I am certain that you will reach the

conclusion that the bill as it now stands attempts to cover too much ground and prescribes certain duplications which will be of no benefit with regard to the evil which it is sought to correct.

We suggest that the bill as it is now before you be amended by retaining only the portion of the same which relates to legislation, or that there be inserted in the bill as Section 7, the present Section 7 being renumbered to be Section 8, the following:

"Section 7—Nothing herein contained shall apply to any person who shall appear before any Federal department, bureau, commission, or other executive or administrative agency of the United States as the representative of another or on his behalf, to present to, prosecute before, or compromise with any such department, bureau, commission, or other executive or administrative agency, any claim, proceeding, or other matter in which the said person or the person whom he represents may be interested, and in which the appearance by any such person is in accordance with established rules of practice or procedure, if any, of such department, bureau, commission, or other executive or administrative agency."

Your careful consideration of this suggestion is respectfully requested.

The change of time of hearing has prevented Joseph J. Klein of New York, the Chairman of the Committee on Federal Legislation of The American Society, from appearing. He had arranged his engagements so as to be here Tuesday morning but could not cancel a previous engagement for today. He had examined the presentation just made and a night letter received this morning from him reads as follows:

"Proposed presentation adequate and persuasive. Committee should realize that when accountant visits Treasury representative in Washington or in field except most casually or re general matter unassociated with clients affair official records name address of conferee and matter discussed and official verifies power of accountant to appear for given client. Proposed connotation word influence would include letters of inquiry

addressed to officials a manifestly absurd legislative attempt."

SUBSEQUENT LETTER

July 29, 1935.

Following the hearing on Friday morning I made a report to the officials of The American Society. Saturday morning Mr. Caldwell, representing the American Bar Association, gave me a copy of his communication of July 26th addressed to yourself and containing proposed amendments to S. 2512. Those were perfectly agreeable to me as representing The American Society, and I relayed them to the officers asking for telephone authorization this morning. This has been received, and The American Society of Certified Public Accountants endorses the proposals submitted by the representative of the American Bar Association. We believe that they represent amendments of a type which should be included in the bill.

As indicated in our presentation, it is believed that regulations by the several bureaus, agencies or officials will be much more effective in matters of this sort than any single general statutory law can possibly be.

I would not agree with the point brought out in Mr. Caldwell's communication but not included in the proposed amendments that it would be valuable to exclude in any way what he refers to as "the occasional service such as that rendered by a lawyer who calls a Congressman by long distance telephone to communicate support for or opposition to a particular bill." I believe on that point as on the others that any attempt to separate a single group is liable to lead to difficulties that it is hard to foresee.

Telephone communications are not matters of record save as that the call was made. Personally, I would much prefer if it was thought advisable to except the occasional service feature to except individually written communications as representing something the facts concerning which can be definitely proven as is true with reference to each of the first three sub-divisions of the proposed Section 8.

Trusting that the suggestions made in connection with the hearing and since will

meet with favorable response from your committee and expressing appreciation for the privilege of calling them to your attention, this statement on behalf of The American Society, is respectfully submitted.

THE CREDITMAN AND THE ACCOUNTANT.—The creditman and the accountant have much in common. The services of each are indispensable to modern business. On the result of their work the success of an enterprise largely depends. The creditman acts on the information forthcoming from the accountant, and the records and adjustments made by the accountant depend in no small degree on the judgment exercised by the creditman. The creditman and accountant so co-operating may be, and generally are, engaged in different businesses. Nevertheless, they co-operate in a constructive way for the betterment of the businesses of their respective employers. The creditman may be said to go further than the accountant, for he sometimes co-operates with the customers of his employer. Often, by his judgment and timely advice, does he prevent a credit-seeking debtor from over-reaching himself. To me it would seem desirable that the co-operation between accountant and creditman should be extended. In reference to certain matters, the New Zealand Society of Accountants might perform service of great benefit to business by acting in common with the New Zealand Association of Creditmen. Here is a whole field for useful and constructive effort for betterment in the Dominion.

(From Proceedings of the Third Convention of the New Zealand Society of Accountants, 1935.)

The American Medical Association is a confederation of fifty-four State and territorial medical associations, representing 99,536 American physicians, out of a possible country-wide total of 161,000 legally qualified medical practitioners. The Canadian Medical Association has 2,652 members, and has many problems in common with the American group.

Present Trends of Municipal Accounting

by H. A. HARRISON, C.P.A., Los Angeles, California

I HAVE been requested to discuss this subject this evening, and its relationship to the work of Certified Public Accountants.

The growth and development of accounting practice and procedure for municipalities and other public corporations, has not kept pace with the development for industrial and commercial enterprises. This has been due to the disinclination of the average professional man to engage in work bordering the political field, and also, to the smaller returns resulting from the practice of many cities, etc., of placing accounting engagements on a competitive bid basis.

We now find,—due to the recession of business activities and the increase in number of Certified Public Accountants, that many Certified Public Accountants are now, not only competing for such engagements, but are forsaking public practice for salaried positions with many governmental units. We find the tendency is to set up governmental Bureaus or Departments which, in many cases, have eliminated the work of Certified Public Accountants, as independent practitioners.

The so-called depression has focused attention of the general public to the financial condition of many cities, counties, states and other public entities, in the United States. It has been realized that the majority, of municipalities in particular, have not been properly managed from a financial or accounting control standpoint.

This condition has been brought about, in the main, through the lack of proper technical advice and accounting control over the financial affairs of such municipalities, etc.

We find, as a result, that the majority of the larger political units, feel that they should exercise a paternal control over the financial affairs of the smaller units. We, also, find that these larger political units practically never engage the services of Certified Public Accountants from a dis-

interested professional standpoint, unless so required by law.

It is therefore axiomatic, I believe, that each function so taken over by a larger political unit, tends to reduce the field for the independent practitioner, and thus tends to narrow the field and force many Certified Public Accountants to seek employment as salaried employees to do the work, possibly, formerly done by independent accountants.

The financial difficulties of many municipalities throughout the United States has resulted in the movement to establish State Departments or Bureaus to devise and install accounting systems in counties, cities, towns, etc., and to maintain control of financial affairs through approval and supervision of the annual budgets.

The Municipal Finance Magazine, published by the Municipal Finance Officers Association, February, 1934, issue, states that nearly eighty per cent of the cities in the United States have annual or more frequent audits of their accounts by independent accountants, or by a State department of accounts. It is reported in this issue that two hundred and thirteen cities, nearly all over 30,000 in population, made recent reports disclosing their practices. It is stated that one hundred and twenty have audits annually or more frequently by private agencies, forty-seven have audits by State agencies, and forty-six have no independent audits or have them only irregularly.

This article states that audits of local accounts are made by State departments, in Indiana, Iowa, Massachusetts, Minnesota, New York, Ohio, Washington, West Virginia and Wisconsin. In New York and Wisconsin, the cities may engage private accountants. Oregon through an act of the recent legislature also provided for the State Auditing Department to devise and install systems, budgets, etc., and audit accounts of cities in Oregon.

We are advised that the State audits in New York are infrequent, and in Massa-

chusetts, audits are made every two or three years.

The audits in Ohio and Indiana are almost continuous, and to some extent, the audit is a pre-audit of expenditures, i.e., encumbering of appropriations from purchase-orders, payrolls, etc.

This article also states that there exists strong opposition by professional accounting societies to the policy of State audits and that the merits of this question should be decided on the relative costs and quality of work done by the two groups.

The State of New Jersey has a Department of Municipal Accounts which controls the finances of the cities through approval and control of the budget which is based upon a uniform accounting system devised by the State department, the auditing being left to independent accountants, who must pass a special examination of a day's duration, held in conjunction with the examination for the State certificate. This examination thus qualifies all individuals passing, as competent to audit the accounts of any city, etc., in the State of New Jersey.

Legislative bills have been introduced at Sacramento, through the State Chamber of Commerce or similar organizations, to establish a State bureau in California to install a uniform accounting system in all cities possible in this State, and to maintain supervision and control over their financial programs through the medium of a State budget law. It is more than probable that, should such a department be established, that auditing the accounts of the various cities, etc., would be made by employees of the State department.

Many officials of the municipalities in the State of California have expressed their opinion on many occasions that this procedure is not desired by them and that the State officials have not properly managed their own financial affairs and are thus not in a position to instruct the cities relative to financial management through accounting control.

The need for a standard and uniform system of accounting and reporting for financial control through budgets, etc., has been recognized, and a national committee on municipal accounting was organized in

Chicago, January 6, 1934, being composed of representatives from all groups and organizations interested therein.

It is interesting, at this time, to know that a movement, looking toward a uniform accounting system for the State of California was initiated at the University of Southern California during the year of 1931.

Your Committee on Cooperation with Municipalities for the year of 1933 worked with the university and the officials of the League of California Municipalities, in formulating plans and procedure for executing the project.

The League of California Municipalities subsequently appointed a committee to direct the execution of the work. This Committee has functioned in conjunction with the University of Southern California under whose auspices, the detailed field work was started. The committee has now practically completed its work, having arrived at a chart of accounts segregated by functions, activities, objects and funds, in accordance with the actual accounts found to be in use in practically all cities in the State of California.

The accounts have been coded on a decimal basis, thus rendering them adaptable to all cities, large or small, the functions breaking down into activities, and the object classifications into detail objects for the purposes of the larger or better organized cities.

The committee will also include in this report to the League of California Municipalities, a recommended fiscal budget procedure and budget law, based upon the uniform accounting system.

It is more than probable that the findings of the committee will be adopted by the League of California Municipalities and necessary legislation enacted, to set up the requirements as to budgets and accounts according to desires and needs of the various cities, thus forestalling the creation of a State department of municipal accounts for this purpose.

I believe that the Certified Public Accountants have advanced their standing with the many cities of this State and with the officials of the League of California Municipalities, through their assistance in

bringing this project to a completion in a form designed to be of practical use to all cities in this State or elsewhere.

However, I do not believe that we can rest on the thought that having a State certificate alone will result in our being duly considered in any other legislation that may be introduced to set up State agencies, etc. We should also be ready to work with the League of California Muni-

icipalities in such constructive plans as may be necessary to provide the procedure to see that the uniform system is properly installed, and that the requirements of the budget law, if enacted, have been fully complied with in all cities whether audited by holders of State certificates or otherwise, providing for the proper control of such accountants through legislation, if advisable.

TALKING SHOP

A DEPARTMENT CONDUCTED BY LEWIS GLUICK, C.P.A., New York

"HOIST BY OUR OWN PETARD"

Many years ago we wrote an article about Shakespeare. Now a "constant reader" who has also been reading the Bard of Avon, and read in the July number about our size, quotes to our discomfiture:

"Yon Cassius has a lean and hungry look.

... that spare Cassius. He reads much;
He is a great observer, and he looks
Quite through the deeds of men."

But Caesar (for the quote is from Act I, scene ii of Julius Caesar) also remarks that Cassius does not smile. Well, we can and do; but right now we are downright laughing.

TAXES

The Morris Barasch, Esq. who appeared in the case of the Liberty Marine Insurance Co. (32 BTA No. 109) is also a N. Y. C.P.A. There must be over 300 C.P.A.'s who are also attorneys in N. Y., and the District of Columbia has a large number too. But elsewhere the dual practice is quite rare. If the Wagner bill goes through, these men will be sitting pretty.

Who hasn't read at least one of Rafael Sabatini's thrillers; or seen them on the screen? Want to know what his royalties were? Read 32 BTA No. 102. The case of Babbitt, 32 BTA No. 99 is just one big

lye. The case of Wallin, 32 BTA No. 100 is a mix-up of Libel, Lumber, and Land, with a Loss due to Lack of evidence. What the L is this? Myrtle Cerf, C.P.A., got a split decision in the case of Scatena of California (32 BTA No. 96); Joseph Duggan is another C.P.A. who got the same result in the matter of the Chicago Trust Co. et al. (32 BTA No. 113).

Ned Wayburn (32 BTA No. 124) got a rule fifty that looks like a victory till you come to the four-man dissent. For an example of how artists of the stage do business, read this case. We favor the dissent. One Earl Groth, appearing pro se, has our sympathy. He hasn't even a one-man dissent to console himself with. But we don't blame him for thinking he had earned income from that chain store, even though the Board said it wasn't. As a heartbreaker, look at what happened to the Washington *Evening Star*, when the C.C.A. of the 4th Circuit handed down its decision on June 30. It reversed 28 BTA 762 re deductibility of contributions to a community chest. Talk about "giving till it hurts"! Much fairer seems the Court of Appeals of D. C. holding in favor of the Fairmount Cemetery of Denver, also reversing the BTA on June 29. All things come in threes, so on July first the C.C.A. of the 2nd circuit reversed the Board in Muller & Co. This time the Commissioner won.

<i>Box Score</i>	<i>Won</i>	<i>Lost</i>
Government	2	1
Taxpayer	1	2

M. E. B., from whom we have not heard in years, comes through with this welcome story.

"You publish such unusual experiences and ask for those of others, so here is one that is unique in my 25 years of public practice. I discovered a simple, but clever, long-continued manipulation of accounts, with no shortage of cash. I was puzzled at the object, until the bookkeeper, seeing that I had discovered his guilt, confessed. Two of the corporation's customers were close kin of his. To keep their credit good, and give them extra time, he had consistently manipulated the books. The ordinary requests for confirmation did not trip this. It was only by impounding the incoming mail, and personally examining it with the treasurer that I was given a clue to the juggling."

We like to give cross references, but we are just too lazy this time to go back through our files, to find out just when Oldtimer told about a client who had a monopoly and was, as a result, very prosperous. But a customer writes to inquire about this, and know if things were still running as smoothly. So we passed on the query to Oldtimer, and got this reply:

"We have just closed the books and submitted the annual report. Cash in bank reached a new high. So did increase in net worth. And so will the building, for the company is now erecting an addition to the old plant, after having occupied rented space for a year to make sure the demand would continue. The only cloud on the whole proceeding is a dispute with Internal Revenue about the president's salary. We don't expect to win it."

It would seem from the foregoing that whatever patent Oldtimer's client has, is not of the ephemeral nature of midget golf. Now if only we had a few like that!

The following comes to us via the West Publishing Company's Docket.

"A bank in this city was sued by a woman who went into the bank on a rainy

day to make a deposit. As she turned to go out of the bank, she slipped on the marble floor on which some water had accumulated from the dripping of umbrellas, etc., and fell. She sued the bank for \$500, alleging in her summons before the magistrate, that the 'defendant negligently allowed water to accumulate on the marble floor in said bank, causing same to become unsafe for depositors.'

It was urged in defense of the case that while some banks in these days have been accused of causing their institutions to become 'unsafe for depositors' by the accumulation of water in their stock, this is the first time that a banking institution has been charged with becoming 'unsafe for depositors' by reason of water on its floor."

Here is another unusual experience from Mr. A. Nonymous (but the Shop-talker knows who he is).

"About six weeks ago one of my oldest clients went into bankruptcy. Believe it or not, in nearly twenty years of public practice on my own account, it is the first client who has gone into bankruptcy. True, I've had a few who liquidated; one or two whom I have advised to do so, to stop losses in the last few years. But voluntary or involuntary, this is the first bankruptcy." (When we showed this letter to the Kid he interrupted at this point to quote "Show me the man who makes no mistakes, and I'll show you a man who never did anything." But we ignored him). "During my apprenticeship I worked for one of the very large firms, but not once was I assigned to a bankruptcy engagement; I have never refused to accept a bankruptcy engagement; but only twice have I been retained by a creditor or receiver. And for an individual practitioner I've had a pretty fair-sized practice. If this isn't some sort of record let me know."

All right, readers! Let him know through us.

THE SHOP TALKERS

"Now look at this guy," said the Kid as Philo walked in. "He goes around telling how bad business is; and then he not only goes to the totally unnecessary expense of wearing a hat but he has to

go and buy himself one with an expensive label."

"You are more observing than wise," replied Philo, smiling. "And it is just because you noted that label that I bought it. I have a very definite philosophy about hats, which I practice unfailingly."

"Expound it," said the Kid. "I suppose you'll quote Carlyle's *Sartor Resartus*, but I can stand anything."

"I do not think that old Thomas would have said anything about this. In Scotland going without a hat at all would have been unthinkable. Personally I think that it is a fine thing for all except the baldys. But 'man yields to custom as he bows to fate' and the hatless craze, while all right for youths, and at the beach is hardly in keeping with the modicum of dignity which even a C.P.A. is supposed to have."

"Granted," said the Kid. "I wear a hat myself. But not one that costs at least three bucks. These straws all look alike anyhow; and better have two cheap ones in one season than being compelled to have a dear one cleaned every couple of weeks."

"Yes," said Philo. "There is much force in what you say. But just consider this. No part of a man's costume is more conspicuous than his hat. I can, and do, wear shoes that come from a 'factory to you' chain store; I've been buying my underwear at Nassau street fire sales for the last four years. Who knows the difference? But everybody sees my hat. I go into dozens of offices; I hang it up in a lot of restaurants with a lot of other people besides this group. I can not hide the label. And while I *know* that too much stress is laid on labels; and that a Fifth Avenue address is used as an excuse for profiteering, still human nature is human nature; and I'm not in a position to defy it. If I were one of the really big shots of the profession, with plenty of money; and lots of wealthy clients, I might be able to afford a cheap hat. But right now, with a shrinking practice, and still more shrinking collections, I just *must* keep up appearances. Not that this hat business is anything new with me, for I've done it since my earliest days in business. The times merely make it more necessary."

"I wonder," said Oldtimer, "if you

know the story about the original J. P. Morgan and the high hat?"

"I've heard it," said Philo, "but I'll listen to it again for the sake of the Kid. He needs it."

"Mind you," said Oldtimer, "I'm not giving an unqualified certificate to the story. It's just as I heard it fifty years back. An inquiring reporter asked the old man 'If you were down to your last ten dollars, what would you do?' And the old banker replied, 'I'd go out and buy me the best silk hat in New York; and walk down to Wall and Broad. And people would be anxious to do business with me. Besides which, the knowledge that one is well dressed, is greater than the consolation of religion.'"

"Well, it's a good yarn anyhow," said the Kid. "But I think the old guy was doing a Hooey Long."

"Well, in my day," said Oldtimer, "we called that sort of bunk 'talking through your hat.'"

SIGNING OFF

Repeating what we have said several times before. We get no material compensation for running this shop. Our real compensation is in the fun we get and the contacts we make. If compliments were subject to income taxes we would be in a high surtax bracket after the SHOP-TALKERS' LADIES in the June issue. We must burst into song; and you can hear Al Jolson sing the music every Saturday night.

Thank you father; thank you mother;
Thank you sister; and the same goes for
you brother;

Thank the family for the letters you
write;

You don't re'lize how they bring us
delight.

So send us stories,

All kinds of stories;

And although we can't print all you
indite,

We will try to bring you new yarns,

And hope that they are true yarns;

So till Kansas City, Good night!

County Auditing and Bookkeeping *

by GEORGE MORRIS

WHEN the late session of the Tennessee Legislature was confronted with the necessity for making provision to take care of the biennial deficit, the question arose as to what was the deficit. Estimates ranged from \$2,600 to as high as \$7,000,000.

It was agreed that before the Legislature could proceed intelligently an audit of the records of the various state departments was necessary. An adjournment was taken, the Tennessee Taxpayers' Association engaged to make an audit, and upon the result of its findings depend the steps necessary to balance the budget.

One fact was apparent from the outset. There was no uniform method of keeping books in any two departments. There was nothing in any department suggesting a modern system, and there never had been. Instead of knowing what the condition of the state's finances was, and being able to draw a balance sheet any hour of the day or night, the question resolved itself into an argument with the decision going to the one who could talk the loudest.

One of the factors contributing to the misunderstanding was the guess as to what the various collecting agencies in the counties might, should or would pay into the state treasury. One guess apparently was as good as another, with the one guessing the least amount being nearest to the correct amount.

There are approximately 380 county officials collecting taxes for the state in the counties, not to mention the collecting officials for the state who are paid directly at Nashville. Four county officials in each of the 95 counties collecting state and county taxes means 380 officials directly accountable to the state.

Within the past year or so 317 officials have had their books audited. Of that number 225 were short. The total short-

age of funds due the state from the counties amounted to in excess of \$800,000. The so-called audits of the records of county officials were called audits by courtesy. The records, for the most part, were not actually audits of collections and disbursements over a period of years. In most cases state auditors merely accepted the figures of officials and fixed the shortage as shown on the face of the records.

When the Tennessee Taxpayers' Association was called in to audit the books and make recommendations for more economical administration, the result was entirely different. Unfortunately the association's services have not been in great demand. Officials whose accounts are of doubtful accuracy usually have sufficient influence to prevent an invitation being extended to the association to come in and go to the bottom of things.

But it is significant that the already revealed and uncollectible shortage amounts to \$800,000. What it actually is probably will never be disclosed. Certainly it will not be if some officials can prevent it. If the collecting agencies are short \$800,000 to the state, one can only wonder, with no hope of finding out, how much is the shortage to the counties. Tax collecting officials presumably take in three or four dollars for the county for each dollar collected for the state. A little offhand reckoning would place the loss of the counties at three or four times the \$800,000.

Obviously there is no reason for such conditions to exist. The reason that it is permitted to exist is that many officials are not able to obtain surety bonds from recognized bonding agencies, and county courts accept bonds from a few insolvent friends to enable the official, who is "the people's choice," to hold his job. His incompetency or dishonesty, therefore, costs nobody anything except the people who pay the taxes. It is their business to pay again, or repay their own money which was lost.

*This article appeared on the editorial page of the *Memphis Commercial Appeal* for June 26, of which Mr. Morris is Editor-in-Chief.

It is apparent from the revelations already made public, that what Tennessee needs more than anything else is a uniform system of state and county accounting. There should be a law requiring an audit of the records of every official handling state and county funds at least once a year. The auditing should not be done by political appointees, disposed to curry favor with the officials, but by certified accountants with reputations for accuracy and necessity for maintaining their reputations.

Officials who keep their house in order would welcome a yearly audit at undetermined times. A clean slate would provide a powerful argument for re-election. It would restore confidence.

Governor McAlister has indicated that his call for an extra session of the Legislature will be confined to revenue and appropriations. Inclusion of a request for a uniform system of accounting, and an annual audit by impartial concerns, would go far toward conserving the state's finances when they are collected.

We know that the state would be \$800,000 better off if there had been some such system in vogue during the past few years.

ers, students, librarians and others interested in accounting literature of the twentieth century.

CORPORATION LAW FOR OFFICERS AND DIRECTORS, A Guide to Correct Procedure, by William J. Grange, member of the New York Bar. Published by the Ronald Press Company, 15 East 26th Street, New York City. 904 pages. Price \$6.00.

The subject matter of the book covers the whole range of corporate existence, from incorporation to dissolution, chief emphasis being placed on the functioning of the corporation as a going concern.

The adoption, amendment and repeal of by-laws, holding of meetings of stockholders and the board of directors, preparation of minutes, the issuance, registration and transfer of stock are treated in detail and illustrated by a set of practical working forms. Other important topics thoroughly discussed are the law and practice in relation to dividend payments, rights and liabilities of directors and officers, powers of corporate agents, contracts in which officers or directors are personally interested, corporate mortgages, bonds and other securities, and a chapter on the rights and remedies of minority stockholders. Attention is also given to the subject of doing business outside the State of incorporation. The fundamentals of taxation of corporations has been treated and there is a compact analysis and discussion of the Securities Act of 1933, the Securities Exchange Act of 1934 and the corporate reorganization provisions which were added to the Bankruptcy Act by Section 77-B.

Book Reviews

BIBLIOGRAPHY OF WORKS ON ACCOUNTING BY AMERICAN AUTHORS, 2 vols., by Harry C. Bentley and Ruth S. Leonard. Published by Harry C. Bentley, 921 Boylston Street, Boston. Vol. I, \$3.50; Vol. II, \$4.50; 2 vols. (if ordered at same time) \$7.50.

Vol. I (1796-1900) is a complete bibliography of works on accounting by American authors, which were copyrighted prior to January 1, 1901. It should be of interest of university, college, public and private libraries, collectors and students of accounting who are interested in the historical and bibliographical background of American literature on accounting.

Vol II (1901-1934) is a bibliography of works on accounting by American authors from January 1, 1901 to January 1, 1935. In addition to its historical interest, this volume has practical value as a source of reference to accountants, teach-

NEW SOURCES OF MUNICIPAL REVENUE, by A. M. Hillhouse. Published by Municipal Finance Officers' Association of U. S. and Canada, 850 East 58th Street, Chicago. 74 pages. Price \$1.00.

This study should be helpful to State and local officials concerned with problems of local finance. The author strongly recommends the extension of centrally collected, locally shared taxes as the major solution of the local government revenue problem.

CORPORATE PROFITS AS SHOWN BY AUDIT REPORTS, by W. A. Paton, C.P.A., Professor of Accounting, University of Michigan. Published by National Bureau of Economic Research, N. Y., as No. 28. 151 pages. Price \$1.25.

This study is based on the income sheet and balance sheet statistics of some 700 small and medium-sized corporations for 1927-1928-1929. The reports were drawn from all parts of the country and represent clients of many accounting firms. The original data were compiled for the National Bureau of Economic Research by members of the American Institute of Accountants from their files. Cooperating firms furnished, upon request, a representative sample from their files, including unsuccessful as well as successful enterprises.

Although the period covered was only three years, and those relatively prosperous, and the number of reports received small, the material was deemed of sufficient importance to deserve tabulation and analysis. Professor Paton's skillful and judicious handling of the data has more than justified that decision.

A TYPE STUDY OF AMERICAN BANKING, Non-Metropolitan Banks in Minnesota, edited by Russell A. Stevenson, Dean of the School of Business Administration of the University of Minnesota and Director of the Employment Stabilization Research Institute. Vol. IV, No. 1. 162 pages. Price \$1.00.

FUNDAMENTALS OF ACCOUNTING, by Earl A. Saliers, C.P.A., Professor of Accounting at Louisiana State University. Published by Business Publications, Inc., 332 South Michigan Ave., Chicago. 424 pages. Price \$4.00.

The purpose of the author in presenting this book is to lead the student to an appreciation of the principles of accounting and an understanding of their practical application by first introducing to him the statements which are most important and then explaining what records are necessary to secure such statements. The chapters discuss Elements of Business: Need of Records; Property, Debts and Wealth;

Net Worth; Changes in Net Worth; The Profit and Loss Statement; Business Instruments Practice and Procedure; Recording Business Transactions; Account Classification and Trial Balance; Interpretation of Accounts, Closing the Books; Subdivision of Accounting Records Controlling Accounts; The Work Sheet, Financial Statements; Cash Records and Cash Journal; The Voucher System; Accruals and Prepayments; Reserves and Funds; Forms of Organization, Partnerships; Partnership Accounting; Forms of Organization, The Corporation; Corporation Accounting, Opening Corporation Books, Treatment of Surplus; Account Classification, Numerical and Mnemonic Systems; Notes and Drafts; Manufacturing Accounting; The Factory Ledger; The Subsidiary Company; Funds Derived and Applied; Capital Assets; Bond Accounts; Valuation; Material for five practice sets.

A carefully coordinated practice set is available which carries the student through a business operated first as a single proprietorship, then as a partnership, and finally as a corporation. The cost of this practice set is \$1.00.

FINANCIAL ASPECTS OF CORPORATE NET WORTH, by Arthur H. Winakor. Bulletin No. 50 of Bureau of Business Research, University of Illinois. Published by the University, Urbana, Illinois. 34 pages.

This bulletin is confined to a study of net worth data from corporation balance sheets. The purpose is to present some factual data in regard to net worth and so to analyze them as to give a fair picture of some of the present-day corporate practices and policies.

The analysis and discussion are concerned mainly with the size of net worth and of its component parts of stock and surplus studied to discover changes in recent years, variations accompanying different sizes of enterprise, and the extent to which common and preferred stocks as well as par and no-par stocks are employed. Other parts of the study analyze these same factors as related to type of industry, intangible values on the financial statements, and treasury stock.

Wee Bits on Accountancy

REGULARLY CONTRIBUTED BY LOUIS S. GOLDBERG, C.P.A., Sioux City, Iowa

Association Membership

Associations have become commonplace in American life; under NRA their development was accentuated. Every profession, every industry, nearly every calling has its society. Our acceptance becomes matter of fact. But sometimes a querulous accountant asks: Why an association of accountants? Indeed, why any association?

Five words provide the answer: Technical Progress and Ethical Advancement.

The world moves on, and moves exceedingly fast. The professional standards and technique that were sufficient yesterday are inadequate today. A profession justifies its existence only as it serves the needs of our modern economic and social life. The profession of accountancy must keep pace with our rapidly moving civilization. Protection of the public and advancement of the profession must go hand in hand.

Such ends can be attained only through concerted action, through associations. Brilliance is soon lost in isolation. Through attendance at gatherings come the personal contacts of fellow-practitioners: thereby comes the common understanding of men dedicated to the common cause of service; thereby comes the good-fellowship that cements that common understanding; thereby comes the exchange of thought and experience, the mental friction that stimu-

lates enthusiasm, vision, and further thought, thereby comes the inspiration to further achievement.

And yet, personal attendance is not indispensable. After the meetings come the reports of the proceedings; and from those reports and the literature that is stimulated through these gatherings and appearing in the professional journals, the member who remains at home may yet share the thought and progress of his professional brethren.

How like the celebrated "Man Without a Country" is the accountant without membership in his State association! He brands himself as out of step with the march of progress; as one who takes all and gives nothing; as one who fails in his duty to the public and to his profession, unwilling to contribute such light and leading as he can. One finds, too, the man who is merely a member and nothing more; who does not participate actively in the benefits and the burdens; who knows not the joys of wholehearted application. Words are lost on such as these; they know not the thrill of creative effort; they are without enthusiasm, without vision; to them, until they see the light, an association has nothing to offer.

All Roads Lead To Kansas City

DURING the days of the Roman Empire, when it was at the zenith of its power and glory, the favorite expression of the publicity directors of the Caesars was that "All Roads Leads to Rome." Today, with a few slight variations, this same statement can be applied to Kansas City—all highways, all railroads and all airlines

lead to Kansas City, the "Heart of America." Because of the fact that all national trails pass through, there is a constant stream flowing through the city of people from the East, the West, the North and the South. This assures the prospective visitor that accommodations for his care and comfort are up to

date and ample, and that the city as a whole is proficient in the art of entertaining. As a leading center in many lines, Kansas City welcomes the analysis to which it is subjected annually by these thousands of visitors.

Few cities have the excellent convention facilities afforded by Kansas City. There are more than enough first-class hotel rooms in the downtown district to house a convention of almost any size and meeting space is available in these same hotels. Restaurants, coffee shops, cafes and cafeterias are numerous and efficient. Because of the enormous turnover each year, room rates and food prices are exceedingly low and the service is unexcelled.

Aside from the fact that it has the facilities for the material comfort of convention delegates, Kansas City has much to offer in the way of civic achievement and beauty. The city shows evidence of being planned with the characteristic foresight of western pioneers and while many older cities have suffered through lack of adequate provision for residential district, parks and boulevards, Kansas City has gained the reputation of being "America's most beautiful city."

The artistic development of Kansas City in the last few years has been rapid and it is becoming known as the cultural center of the Middle West. The beauty of the new William Rockhill Nelson Gallery of Art and its collection of objects ranging from the earliest civilization of Asia Minor to contemporary 20th century art, recently astonished an English visitor who frankly admitted that he had expected to find Kansas City just another industrial center. He was also impressed by the Liberty Memorial which, in his opinion, ranked as one of the handsomest monuments produced by the World War.

In Kansas City there are opportunities for all types of entertainment and sports. Golf finds thousands of adherents and the golf-playing visitor may find complete satisfaction on local links, credited with being among the best in the United States.

As to the welcome to the delegate and visitor—Kansas City is a homey and hospitable place. Its people are thoroughly American, typically western in their enterprise, yet southern in the warm hos-

pitality extended to every visitor within its gates. It has been truthfully said of this great metropolis: "It blends the culture of the East, the vision of the West, the energy of the North, and the hospitality of the South."

If you have been there before, then you should keep abreast of the times and see the great progress that has been made. If you have not, then you owe it to yourself, your business and your society to see what this great Southwest, to which Kansas City is the gateway, has to offer.

Do You Know

1. That the area of Greater Kansas City is 454.51 square miles?
2. That the population (1930 census) is 608,186?
3. That the population in Kansas City's trade territory is 21,434,231?
4. That Kansas City's Union Station is one of the five largest in the world?
5. That Kansas City is entered by 12 trunk line railroads and 32 subsidiary lines?
6. That Kansas City has the most conveniently located airport of any in the United States—only five minutes by auto from the business district?
7. That 38 planes arrive and depart daily, carrying passengers, mail and express?
8. That a municipal auditorium is now under construction, costing more than \$6,000,000 which, when completed, will be one of the best in the United States?
9. That Kansas City ranks eighth in number of hotels and seventh in total number of guest rooms?
10. That Kansas City is the home of the William Rockhill Nelson Gallery of Art, which ranks as one of the finest museum buildings in the world and which now contains more than 5,000 objects of art?
11. That Kansas City's Country Club District, comprising more than 3,000 acres, is one of the best known residential sections in America?
12. That Kansas City has 3,500 acres in parks and boulevards?

Questions and Answers Department

EDITOR, STEPHEN GILMAN, C.P.A., Educational Director
International Accountants Society, Inc.

Solution to Problem 5 of November, 1934, Examination Service of The American Society of Certified Public Accountants, published on pages 119-121 of the February, 1935, issue.

In the examination room, it would be necessary for the candidate to adopt some practical method of obtaining the figures for his balance sheet. Either a memorandum account method or a rough working sheet could be used. This solution uses the working sheet plan.

There are a few computations that appear slightly complicated.

For example, the purchase price of store, office and delivery equipment is not given, but the rate of depreciation is given and the further information that no allowance is made for scrap value. The actual depreciation in dollars for three months is given in the profit and loss statement. Obviously, the depreciation for one year is four times the amount for three months, and if the life of the equipment is ten years, the cost is forty times the depreciation of three months. Where the life is five years the cost must be twenty times the depreciation of three months. Hence, we have the following calculation:

Computation of Equipment Purchased

	<i>Store Equipment</i>	<i>Office Equipment</i>	<i>Delivery Equipment</i>
Depreciation (3 months).....	\$ 25.00	\$ 15.00	\$ 62.50
Cost:			
40 × depreciation	1,000.00	600.00	
20 × depreciation			1,250.00
Cash Payments (4/5).....	800.00	480.00	1,000.00
Credit Accounts Payable (1/5).....	\$ 200.00	\$ 120.00	\$ 250.00

The balance of accounts receivable is not given but the total sales are given and the amount of discount allowed is indicated in both dollars and rate. Thus the discount allowed to customers was 1% and the discount in dollars was \$98.25. Hence, the cash received on these accounts must have been $99 \times \$98.25$. Similar reasoning applies to the accounts payable with the result that we have the two following computations:

Computation of Accounts Receivable Balance

Net Sales		\$13,125.00
Sales Discount (1%)	\$98.25	
Cash Received (99%)	9,726.75	
	<hr/>	
Total Credit (100%)		9,825.00
		<hr/>
		3,300.00
*Less—Customer's Note (Trans. 14)		400.00
		<hr/>
Balance, 3/31/34		\$2,900.00
		<hr/> <hr/>

*Note—It is assumed that discount was not taken on this payment.

Computation of Accounts Payable Balance

Net Purchases		\$7,005.00
Purchases Discount (3%)	\$ 173.25	
Cash Paid (97%)	5,601.75	
	<hr/>	
Total Debit (100%)		5,775.00
		<hr/>
		\$1,230.00
Add—Balance due on Equipment (Trans. 10)		570.00
		<hr/>
Balance, 3/31/34		\$1,800.00
		<hr/> <hr/>

In order that the reader may more readily follow the transactions as entered on the working sheet, a short explanation of each is given herewith:

Explanation of Working Sheet Entries

1. Setting up authorized capital.
 2. Payment of common stock subscriptions.
 3. Three months' interest on notes.
 4. Payment of preferred stock subscriptions.
- (The cost of land and buildings is not given separately but the rate of depreciation for a life of 25 years is 4% a year or 1% for three months, and the depreciation taken in the profit and loss statement is \$44.00. This indicates a book value for the buildings of \$4,400, which is twice the cost.)
5. Depreciation on buildings.
 6. Setting up authorized bonds.
 7. Sale of bonds at 95.
 8. Amortization of bond discount and interest on bonds.
 9. Setting up fund and reserve for redemption of bonds at maturity.
 10. Purchase of equipment.
 11. Depreciation on equipment.
 12. Payment for insurance and unexpired insurance.
 13. Declaration of dividends.
 14. Customer's note receivable.
 15. One month's interest on note.
 16. Accounts receivable transactions.
 17. Accounts payable transactions.
 18. Setting up inventory of merchandise.

19. Salaries paid and accrued.

(The profit and loss statement shows Sales Salaries of \$1,500 for three months and Office Salaries \$600, a total of \$2,100. One-third remains unpaid.)

20. Rent paid and accrued.

(The profit and loss statement shows rent expense of \$750 for three months, one-third of which is unpaid.)

21. Prepaid Advertising.

(Ten per cent of the outlay for advertising supplies remained on hand at the end of the quarter. Consequently, the cost of advertising supplies used (\$1,130) must be nine-tenths of the total outlay.)

22. Setting up inventory of store supplies.

(Ten per cent of the outlay for store supplies remained on hand. Hence the store supplies used (\$180) must be nine-tenths of the total.)

23. Sundry expenses (selling and general.)

24. Setting up Reserve for Bad Debts.

In the working sheet the adjustments affecting Earned Surplus are made directly in that account and not through Sales, Purchases, Depreciation and other income and expense accounts, since the only purpose of the working sheet is to develop the net figures for use in the balance sheet.

Ajax Distributors, Inc.

Working Sheet

March 31, 1934

	<i>Transactions</i> 1-1-34—3-31-34		<i>Balance Sheet</i> March 31, 1934	
	<i>Dr.</i>	<i>Cr.</i>	<i>Dr.</i>	<i>Cr.</i>
Common Stock Unissued.....	(1) \$16,000.00	(2) \$ 4,400.00	\$11,600.00	
Preferred Stock Unissued.....	(1) 32,000.00	(4) 8,800.00	23,200.00	
Common Stock Authorized.....		(1) 16,000.00		\$16,000.00
Preferred Stock Authorized.....		(1) 32,000.00		32,000.00
Cash	(2) 2,200.00	(9) 220.00		
	(7) 4,180.00	(10) 2,280.00		
	(16) 9,726.75	(12) 332.00		
		(17) 5,601.75		
		(19) 1,400.00		
		(20) 500.00		
		(21) 1,255.56		
		(22) 200.00		
		(23) 328.50	3,988.94	
Notes Receivable--Stockholders.....	(2) 2,200.00		2,200.00	
Accrued Interest Receivable.....	(3) 33.00			
	(15) 2.00		35.00	
Earned Surplus	(5) 44.00	(3) 33.00		
	(8) 77.00	(15) 2.00		
	(9) 220.00	(16) 13,125.00		
	(11) 102.50	(17) 173.25		
	(12) 83.00	(18) 1,000.00		
	(13) 264.00			
	(16) 98.25			
	(17) 7,005.00			
	(19) 2,100.00			
	(20) 750.00			
	(21) 1,130.00			
	(22) 180.00			
	(23) 328.50			
	(24) 100.00			1,851.00
Land	(4) 6,600.00		6,600.00	
Buildings	(4) 4,400.00		4,400.00	
Revaluation Surplus		(4) 2,200.00		2,200.00
Reserve for Depreciation—Buildings		(5) 44.00		44.00
Bonds Unissued	(6) 5,000.00	(7) 4,400.00	600.00	
Bonds Authorized		(6) 5,000.00		5,000.00

Unamortized Discount on Bonds....	(7)	220.00	(8)	11.00	209.00	
Accrued Bond Interest Payable.....			(8)	66.00		66.00
Bond Redemption Fund.....	(9)	220.00			220.00	
Sinking Fund Reserve.....			(9)	220.00		220.00
Accounts Payable			(10)	570.00		
			(17)	1,230.00		1,800.00
Store Equipment	(10)	1,000.00			1,000.00	
Office Equipment	(10)	600.00			600.00	
Delivery Equipment	(10)	1,250.00			1,250.00	
Reserve for Depreciation—Store Equipment			(11)	25.00		25.00
Reserve for Depreciation—Office Equipment			(11)	15.00		15.00
Reserve for Depreciation—Delivery Equipment			(11)	62.50		62.50
Unexpired Insurance	(12)	249.00			249.00	
Dividends Payable:						
Common Stock			(13)	88.00		88.00
Preferred Stock			(13)	176.00		176.00
Notes Receivable—Customers	(14)	400.00			400.00	
Accounts Receivable	(16)	3,300.00	(14)	400.00	2,900.00	
Inventory of Merchandise.....	(18)	1,000.00			1,000.00	
Accrued Salaries Payable.....			(19)	700.00		700.00
Accrued Rent Payable.....			(20)	250.00		250.00
Prepaid Advertising	(21)	125.56			125.56	
Inventory of Store Supplies.....	(22)	20.00			20.00	
Reserve for Bad Debts.....			(24)	100.00		100.00
Totals					<u>\$60,597.50</u>	<u>\$60,597.50</u>

Ajax Distributors, Inc.
Balance Sheet
March 31, 1934

ASSETS

Current Assets:

Cash		\$ 3,988.94	
Notes Receivable:			
Customers	\$ 400.00		
Stockholders	2,200.00	2,600.00	
Accrued Interest Receivable.....		35.00	
Accounts Receivable	2,900.00		
Less—Reserve for Bad Debts.....	100.00	2,800.00	
Inventory of Merchandise.....		1,000.00	
Total Current Assets.....			\$10,423.94

Fixed Assets:

Land		\$ 6,600.00	
Buildings	\$ 4,400.00		
Less—Reserve for Depreciation.....	44.00	4,356.00	
Store Equipment	\$ 1,000.00		
Less—Reserve for Depreciation.....	25.00	975.00	
Office Equipment	\$ 600.00		
Less—Reserve for Depreciation.....	15.00	585.00	
Delivery Equipment	\$ 1,250.00		
Less—Reserve for Depreciation.....	62.50	1,187.50	
Total Fixed Assets.....			\$13,703.50

Deferred Charges and Prepaid Expenses:

Unexpired Insurance	\$ 249.00	
Prepaid Advertising	125.56	
Inventory of Store Supplies.....	20.00	
Unamortized Discount on Bonds.....	209.00	

Total Deferred Charges and Prepaid Expenses	603.56
<i>Other Assets:</i>	
Bond Redemption Fund.....	220.00
Total Assets	<u>\$24,951.00</u>

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 1,800.00	
Accrued Salaries Payable.....	700.00	
Accrued Rent Payable.....	250.00	
Accrued Bond Interest Payable.....	66.00	
Dividends Payable—Common	88.00	
Dividends Payable—Preferred	176.00	
Total Current Liabilities.....		\$ 3,080.00

Fixed Liabilities:

Bonds Authorized	\$ 5,000.00	
Less—Unissued	600.00	4,400.00
Total Liabilities		<u>\$ 7,480.00</u>

NET WORTH

Capital Stock:

Preferred Stock Authorized.....	\$32,000.00	
Less—Unissued	23,200.00	\$ 8,800.00
Common Stock Authorized.....	\$16,000.00	
Less—Unissued	11,600.00	4,400.00
Total Capital Stock Issued.....		<u>\$13,200.00</u>

Surplus:

Earned Surplus	\$ 1,851.00	\$ 1,851.00
Sinking Fund Reserve.....	220.00	
Revaluation Surplus	2,200.00	
Total Surplus		<u>4,271.00</u>

Total Net Worth..... \$17,471.00

Total Liabilities and Net Worth..... \$24,951.00

Note to Examiner:

Since no adjustments in the profit and loss statement are called for, the balance sheet has been prepared without taking account of the fact that depreciation expense of \$44 might be apportioned \$22 against Earned Surplus and \$22 against Revaluation Surplus.

NOT TAKING CHANCES

"You'll have to send for another doctor," said the one who had been called, after a glance at the patient.

"Am I so ill as that?" gasped the sufferer.

"I don't just know how ill you are," replied the man of medicine; "but I know you're the lawyer who cross-examined me when I appeared as an expert witness. My conscience won't let me kill you, and I'll be hanged if I want to cure you. Good day."—*Border Cities Star*.

Words are things; and a small drop of ink, falling like dew upon a thought, produces that which makes thousands, perhaps millions, think.

—Lord Byron.

Of the people themselves it may be said that they, at the end of the avenue, expect the President to produce. He has not been given all this unheard-of grant of power to smile over or to take satisfaction in. "I recognize," said Hitler the other day, "that if I don't make good, I'll not pass my old age in a villa in Switzerland."

STATE SOCIETY NEWS

CALIFORNIA

The annual meeting of the California State Society of Certified Public Accountants was held in the Palace Hotel, San Francisco, on June 8 and 9, 1935.

Norman L. McLaren presented a paper on "Our Profession—Today and Tomorrow" and Fred D. Bullock discussed tax bills before the 1935 California Legislature. Paul C. Smith, financial editor of *The Chronicle*, discussed recovery and inflation.

In the afternoon Lester J. Ryan read a paper on the administration of State taxes, with particular reference to sales taxes. This was followed by a paper on oil inventories by Howard S. Thompson.

Lewis Lilly acted as toastmaster in the evening and William Dodge presented the John F. Forbes medal to Harold Finkle of Los Angeles.

On Saturday morning a business session was held at which time officers and directors were elected as follows: President, Harry B. Mills; First Vice-President, Anson Herrick; Second Vice-President, Walter B. Gibson; Secretary-Treasurer, B. W. Bours. Directors: A. DeWitt Alexander, B. W. Bours, John F. Forbes, G. S. Gilbertson, Anson Herrick and Harry B. Mills.

In the afternoon the golf tournament was held at Meadow Club of Tamalpais. Messrs. Ware of Los Angeles and Morrison of San Francisco tied for low gross score and on the toss the prize went to Mr. Ware. Two years ago these same gentlemen tied for low score and at that time Mr. Morrison won in the toss.

FLORIDA

Officers elected at the recent annual meeting of the Florida Institute of Accountants are: President, C. H. Goodrich; Vice-Presidents, E. C. Work, C. Cecil Bryant and W. W. Arner; Secretary, P. W. Fisher; Treasurer, R. Warner Ring.

A meeting of the Jacksonville Chapter of the Florida Institute was held at the Seminole Hotel on Wednesday, July 3, at which time the Florida Workmen's Compensation Act was discussed by George Ford.

At the Chapter's meeting on July 10, many subjects were discussed, principally among them being the new Federal Capital Stock forms.

GEORGIA

The July Bulletin of the Georgia Society of C.P.A.'s has done its bit towards aiding the "Know Your Neighbor" spirit. It lists the name and address of the secretary of both Board and Society in six border states.

This same bulletin lists the Natural Business Year closing dates for 113 trades or industries.

LOUISIANA

The Society of Louisiana Certified Public Accountants has adopted the following rule for professional conduct:

"Section 10.—Competitive bidding is declared to be inconsistent with the practice of a profession and the best interests of the public which it serves.

"In view of the above declaration,

"(a) No fixed or maximum price shall be quoted for any accounting engagement without submitting therewith a definite statement of the scope of the work to be performed.

"(b) No member shall offer to perform any accounting service for a fee which, in total or per diem, is less than that which was received by another member, for services rendered within the current or previous fiscal year, of substantially the same nature and scope, unless the member previously engaged acknowledges his discharge or retirement from the engagement.

"(c) Lack of sufficient knowledge and understanding of the work undertaken upon which the last fee received was based or of the existence of such fee, shall not constitute a defense for violation of this rule.

"(d) Subject to the above provisions the quotation of per diem rates without a fixed maximum shall be permitted at all times."

MINNESOTA

At the annual meeting of the Minnesota Society held on May 31, the following officers were elected: President, Earl A. Waldo; First Vice-President, Hartwell Wilkerson; Second Vice-President, George C. Ludolph; Secretary, Frank E. Bugbee; Treasurer, Albert G. Aschenbeck.

MISSOURI

The Missouri Society of Certified Public Accountants held its annual meeting on June 14, 1935, and elected officers as follows: President, Lee J. Muren of St. Louis; First Vice-President, Tom E. Hansen of Kansas City; Second Vice-President, P. W. Murdock of St. Louis; Secretary, O. M. Cartall of St. Louis; Treasurer, Procter H. Kerr of Kansas City.

NEW JERSEY

Announcement is made of the resignation of Philip S. Suffern as president of the New Jersey Society of Certified Public Accountants, and the election of Julius E. Flink, formerly First Vice-President, as President. John A. Conlin, formerly Second Vice-President, has been elected as First Vice-President. A Second Vice-President has not been named to succeed Mr. Conlin.

PENNSYLVANIA

The annual meeting of the Pennsylvania Institute of Certified Public Accountants was held at Hotel Hershey, Hershey, Pa., June 20, 21 and 22, 1935.

The first business meeting was opened Thursday afternoon with President Clarence L. Turner of Philadelphia presiding. After the president's address and the reports of the other officers, the Honorable M. Clyde Sheaffer, Deputy Secretary of

Revenue, spoke on the subject "New Pennsylvania Taxes."

At the Thursday evening session an address was delivered by Dr. Luther A. Harr, Secretary of Banking, Commonwealth of Pennsylvania, on "Policies of the Pennsylvania Department of Banking of Interest to Certified Public Accountants" and this was followed by the report of Committee on Review of Published Financial Statements.

Friday morning there was a golf tournament, tennis matches and ladies' putting contest. J. Cyril McGarrigle carried off the honors in the golf contest and was awarded the Institute's Cup and Plate.

The Friday afternoon program was arranged by the Committee on Education. There was an address by Warren W. Nissley, C.P.A., on "Education for the Profession of Accountancy," followed by Robert H. Montgomery, C.P.A., on "Changing Trends in the Practice of Accountancy." A general discussion was held on the subject of "Problems of Accountancy Instruction," in which the discussion leaders were Dr. C. E. Allen, Lehigh University; Robert D. Ayars, University of Pittsburgh; Dr. W. G. Collings, Grove City College; George A. MacFarland, University of Pennsylvania; Charles S. Rockey, C.P.A., and Charles Weissinger, C.P.A., both of Philadelphia.

Friday evening there was an informal banquet at which prizes were awarded to the winners of the various contests followed by dancing and a special entertainment.

Saturday morning the final business session was held at which reports were read by the several committees and the following officers were elected to serve for the ensuing year: James M. Cumming, of Pittsburgh, President; J. Cyril McGarrigle, Vice-President; Robert J. Bennett, Secretary; David M. Fillman, Treasurer, and Frank S. Glendening, Auditor, all of Philadelphia. Council of the Institute to serve two years: Roger K. Nevius, Hubert F. Ravenscroft and Clarence L. Turner, all of Philadelphia.

The above, together with Adrian F. Sanderbeck, of Pittsburgh, John Carle Parry, Jr., of Philadelphia, and the newly elected Chairmen of the several Chapters

will constitute the Council for the ensuing year.

The attendance this year was greater than at any previous meeting, and the meeting was undoubtedly the most successful one ever held.

At the annual meeting of the Philadelphia Chapter, held on May 15, the following officers were elected: Chairman, A. Karl Fischer; Vice-Chairman, John H. Zebley, Jr.; Secretary, John S. Cowing; Treasurer, C. Whitford McDowell; Auditor, Henry S. McCaffrey.

The Pittsburgh Chapter, meeting on May 28, elected as Chairman, James J. Mulvihill; Vice-Chairman, George C. Shannon; Secretary, Ira G. Flocken; Treasurer, O. L. Kay McKibben; Auditor, James H. Young, Jr.

The Harrisburg Chapter met on May 24 and elected Harry Ness, Chairman; Edward A. Schneider, Vice-Chairman; Charles J. Rowland, Secretary; Joseph W. Kettering, Treasurer; and Austin W. Rice, Auditor.

Officers of the Scranton Chapter are: Chairman, J. Donald Notman; Vice-Chairman, Frank Wills; Secretary, Earle R. Herbert; Treasurer, W. D. Stowe.

OREGON

The annual meeting of the Oregon State Society of Certified Public Accountants was held in the Benson Hotel, Portland, on Wednesday evening, June 12, 1935.

Officers elected were: President, Pearce C. Davis; Vice-President, J. C. Goldrainer; Secretary, R. B. Stratford; Treasurer, C. E. Rawlinson.

WISCONSIN

Officers of the Wisconsin Society of Certified Public Accountants, elected in June, are: President, T. A. McCormack; Vice-President, J. C. Gibson; Secretary, Geo. D. Spohn; Treasurer, A. F. North.

Chapter officers are, Northern Chapter: Chairman, Willard J. Schenck; Vice-Chairman, William Nelson; Secretary-Treasurer, R. J. Pusch. Madison Chapter: Chairman, Fred C. Kellogg; Vice-Chairman, Herbert D. Kuentz; Secretary-Treasurer, Keith Parker. Milwaukee

Chapter: Chairman, Edward L. Benton; Vice-Chairman, R. P. Kaesshaefer; Secretary-Treasurer, M. A. Feldman.

State Board News

KENTUCKY

The 1935 Register of the Kentucky State Board of Accountancy carries more information than is usually found in documents of this sort. The opening article is entitled: "Why Be Certified?" and is devoted to a consideration of the value of the training necessary to successfully passing a C.P.A. examination. This is followed by the usual list of certificate holders arranged geographically, alphabetically, individually and as to professional organizations, together with practice connection. There then follows a summary of the examination results since 1916 when the C.P.A. law was passed, and statements regarding reciprocity, competitive bidding, and the Kentucky Society of Certified Public Accountants. Following a copy of the law is a short resume of the development of the profession under the general heading: "A Challenge and an Opportunity."

MICHIGAN

Announcement is made of the appointment of Laurence H. Fish, C.P.A., of Benton Harbor, to succeed Norval A. Hawkins as a member of the State Board of Accountancy.

MARYLAND

Charles O. Hall, C.P.A., of Baltimore, has been appointed to the Maryland State Board of Examiners to succeed Robert L. Reamy whose term had expired.

PENNSYLVANIA

Adrian F. Sanderbeck, C.P.A., of Pittsburgh, was recently appointed to the State Board for the Examination of Public Accountants to succeed William F. Marsh.

OREGON

Ray H. Leshner, C.P.A., of Portland is now a member of the Oregon State Board of Accountancy, having succeeded John Y. Richardson, whose term had expired.

C. P. A. Examination Questions

May, 1935

Practical Accounting

PROBLEM 1:

For a number of years the president of the T Company has received as his compensation from the company a bonus equal to 5% of the annual net profits after deducting any Federal income tax payable. According to an opinion from the company's attorney, the president's bonus or any other bonus is not to be regarded as a reduction of the profit on which the bonus is computed.

During 1934 the board of directors, rather than increase the direct compensation of the company's vice-president and general manager, agreed to give him a bonus also, effective January 1, 1935, equal to 2% of the company's net profit. The board's resolution further provides that the net profit on which the bonus is to be computed is the net profit credited to earned surplus at the close of the year: that is, the net profit reported to stockholders. The board made no change in the method of computing the president's bonus; and the two bonuses mentioned are probably the only bonuses which the company will pay during 1935.

You are required to compute a single percentage, correct to three decimal places, to be applied against monthly net income in 1935 before Federal income tax and bonus provisions, in order properly to accrue the two bonuses.

PROBLEM 2:

How should the following items be reflected in the consolidated statements of Oak Co., and subsidiaries at December 31, 1934?

(1) In 1932 the parent company sold certain properties to its 75%-owned subsidiary, Pine Co., for \$260,000, which was the fair market value on the date of sale, receiving therefor 2,600 shares of the subsidiary's \$100-par-value common stock. The value of the property on Oak Co.'s books at the time of the sale was \$175,000, and this value was continued as the cost of the 2,600 shares.

In 1934 the subsidiary, in an arm's-length transaction, sold the property to an outside buyer for \$285,000.

(2) The parent company constructed an addition to the plant of its 60%-owned subsidiary, Elm Co., in 1932, at a cost of \$154,900. The subsidiary, however, paid the parent company \$190,000 for the plant, at which price it was recorded on the books of the subsidiary, and depre-

The Service of Examination questions conducted by The American Society furnishes practically twice as many questions in Theory, Auditing, Commercial Law and Economics and Public Finance as could be used by any State Board for a four-hour examination period, and twice as many problems in Practical Accounting as would be required for two examination periods of four to five hours each. A Board using the service makes its own selections and adds any special questions or problems which it desires. Part of the questions in Practical Accounting follow.

ciated at an annual rate of 5% ($2\frac{1}{2}\%$ in 1932). Show the effect of the adjustments required on the minority interest and on net worth.

(3) The parent company in 1934 acquired a subsidiary, Maple Co., by issuing to the former owners of the common capital stock of Maple Co. \$100,000 par value of a newly-created 6%-preferred stock of the subsidiary. The net worth of the Maple Co. at the time of the acquisition was \$96,400. The difference of \$3,600 was charged to "Land Account" on the books of the subsidiary. The parent company returned to the subsidiary all the stock it had purchased and paid to the subsidiary \$1,000 for a new issue of 100 shares of no-par common stock, the entire \$400,000 common stock, and a \$91,000 deficit in earned surplus.

(4) The parent company acquired 60% of the common stock of Beech Co. on June 30, 1934, at a cost of \$210,000. At that date, Beech Co. had a net worth of \$509,000, consisting of \$200,000 7% nonvoting-preferred stock, on which there were $1\frac{1}{2}$ years' dividends in arrears, amount outstanding.

(5) The balance sheet at December 31, 1934 of Poplar Co., an English subsidiary, in which the parent company has a 100% interest, is as follows:

Assets—		
Cash in banks		£ 5,500
Customers' accounts		20,400
		<u>£ 25,900</u>
Liabilities and net worth—		
Net worth—		
Capital stock, 2,000 shares outstanding...		£ 20,000
Earned surplus, December 31, 1933....	£ 2,400	
Net profit for the year ended		
December 31, 1934	3,500	5,900
		<u>£ 25,900</u>

The stock in Poplar Co. was acquired on November 30, 1933, at a cost of \$120,000. Earned surplus at that date was £2,000. Exchange quotations on the three dates mentioned were:

Date	Quotation
11-30-33	\$5.20
12-31-33	5.15
12-31-34	4.94

PROBLEM 3:

Adam and Bede are partners in the A. B. Hay & Feed Company. The articles of partnership include the following provisions:

(1) Interest at the rate of 6% is to be credited to each partner's account at the end of the year; the interest computation is to be based on the respective capital accounts as of the end of the preceding year.

(2) Remaining profits, if any, are to be divided equally.

(3) In the case of the death of either partner, the partnership is to be carried on by the surviving partner not more than 60 days after the

date of death, at which time final liquidation and settlement are to be made.

Adam died on August 15, 1934. Under the terms of the will, a trust was set up, the life tenant of which was Adam's wife. The remainder men were Adam's two sons. The will provided that the capital of the trust was to be kept intact. The interest in the A. B. Hay & Feed Company was included in the assets of the trust.

The capital accounts at December 31, 1933 were:

Adam	\$76,250.00
Bede	37,950.00
	=====

Profits were as follows:

7½ months ended August 15, 1934	\$12,826.00
9½ months ended October 15, 1934	17,346.20
	=====

Bede made a settlement with the trustee of Adam's trust as of October 15, 1934 whereby Bede paid to the trustee \$100,000 for Adam's capital as of December 31, 1933 and Adam's portion of the estimated goodwill of the company. In addition, Bede paid the trustee Adam's share of profits for the year 1934 to October 15, 1934.

Set up journal entries recording the above transactions on the trustee's books.

PROBLEM 4:

The Fox Drug Co. was organized July 1, 1926 by Peter Fox and James Cruze. Capitalization of the company consisted of 500 shares of \$100-par-value common stock and 750 shares of 7% \$100-par cumulative-preferred stock. Fox subscribed for common stock totaling \$25,000 in payment of which he turned over to the company certain processes and formulas which were recorded at par. Cruze subscribed for a similar amount of common stock in payment of which he turned over a building which was likewise recorded at the par value of the stock. The preferred stock was sold to outsiders at par.

On June 1, 1928, the company was reorganized in order to secure additional capital for new buildings and certain new types of laboratory equipment. Additional preferred stock of \$75,000 was authorized and issued at par as of July 1. The common stock was canceled and 4,000 shares of no-par stock were authorized having a stated value of \$25 a share. Each share of old common received four shares of new no-par stock. Fox and Cruze each purchased 1 share of the new common at \$25 a share in order to maintain control. The balance of the shares were sold to the public at \$37.50 a share. The difference between stated value and sales price was credited to surplus.

Within a short period of time, the company's business began to decline and at December 31, 1933 it was decided to reorganize in order to write off inflated asset values and eliminate unpaid preferred dividends which had accumulated from January 1, 1933. In this connection the officers have asked you to summarize for them from what sources funds have been obtained and for what purposes they had been expended, from the inception of the business in 1926. You are requested to prepare this information.

The trial balance of the company at December 31, 1933 was as follows:

Cash in banks	\$ 34,897.78	
Accounts receivable	48,837.26	
Inventories	79,680.56	
Other current assets	4,763.92	
Machinery and laboratory equipment	39,019.17	
Office furniture and fixtures	6,239.26	
Land and buildings	96,592.73	
Formulas, processes, patents and copyrights	20,000.00	
Notes payable		\$ 20,000.00
Accounts payable		38,937.72
Accrued liabilities		6,298.00
Other current liabilities		5,726.28
Allowance for depreciation — machinery and laboratory equipment		15,607.68
Allowance for depreciation—office furniture and fixtures		3,119.63
Allowance for depreciation—buildings		9,659.27
Allowance for doubtful accounts		11,519.26
Common stock, no par		100,000.00
7%-cumulative-preferred stock, \$100 par		150,000.00
Surplus (deficit*)		\$30,837.16
	<u>\$330,030.68</u>	<u>\$330,030.68</u>

*Red.

Additional facts to be considered are:

(1) Common-stock dividends were paid at the rate of \$10 a share on December 31, 1927, \$3 per share in 1928 and 1929, and \$1.50 per share in 1930.

(2) In 1926 and 1927, \$20,000 of the formulas account was written off to earnings. During the life of the company, certain rights and processes were sold for \$10,000 which were credited to patents.

(3) In 1928, the original building was sold for \$38,000. Accumulated depreciation at the time of sale was \$2,500.

PROBLEM 5:

From the data following prepare—

(a) An analysis of the reserve for bad debts and losses on repossessions for 1934.

(b) A statement of cost of goods sold for 1934.

The Excelsior Machine Co. produces and sells industrial sewing machines. Certain of its balance-sheet accounts at December 31, 1933 follow:

Receivables	\$1,090,000	
Less—Reserve for bad debts and for loss on repossessions	300,000	\$ 790,000
Inventories, at cost—		
Finished goods	\$ 370,000	
Work in process	40,000	
Raw material	180,000	590,000

Profit-and-loss data for the year 1934:

Net sales	\$2,000,000
Purchases of raw material	350,000
Direct labor	250,000
Factory burden	790,000

Repossessions—

Credits allowed to customers	130,000
Inventory value of repossessed merchandise	80,000
Bad debts charged off, other than on repossessions	8,700
Bad-debt recoveries	5,000

The inventories at December 31, 1934, by physical count, valued at cost, were:

Raw material	\$170,000
Work in process	35,000
Finished goods	410,000

It is the policy of the company to set up 1% of net sales as a reserve for bad debts, and to credit all bad-debt recoveries to the reserve.

Inspection of the final inventories shows that burden of \$8,500 is included in work in process. Work in process was included in the opening inventories at prime cost. The burden on the opening inventories would have been \$9,200 if computed on the same basis as that contained in the closing inventory.

Florida C. P. A. Law

AMENDMENTS TO STATE ACCOUNTANCY LAW AS ENACTED BY 1935 LEGISLATURE

HOUSE BILL NO. 618

AN ACT to Authorize the State Board of Accountancy to Prosecute in the Name of the State of Florida, on Its Own Relation and by Its Own Counsel Suits in the Nature of Injunction or Mandamus Proceedings as the Case may be by Restraining any Person from Disobeying or Commanding any Person to Obey any Law, Order, Rule or Regulation Promulgated by said Board Relating to the Practice of Accountancy in the State of Florida under the Provisions of Chapter 15637, Laws of Florida, 1931, and to Provide the Procedure to be Followed in such Cases and for Appeals from such Proceedings, and Authorizing Process for the Enforcement of any Judgment Entered Therein.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF FLORIDA:

Section 1. Whenever it shall appear to the State Board of Accountancy that any person, partnership or corporation is vio-

lating or about to violate the terms and provisions of Chapter 15637, Laws of Florida, 1931, said Board shall have authority to file a Bill in Equity, in its own name, or proceedings in mandamus in the name of the State of Florida, on its own relation, and by its counsel, alleging the facts, and praying for an injunction or writ of mandamus as the case may be against such person, partnership, or corporation, and its members, officers, or directors restraining them from further violating or commanding them to obey such law. Under proper application and showing that the defendant has not registered as required by the terms and provisions of said Chapter 15637, Laws of Florida, 1931, or that the defendant is not in good standing under any certificate that may have been theretofore issued, or is violating any of the provisions of said Chapter 15637, Laws of Florida, 1931, or that a certificate to practice accountancy as a Public Ac-

countant or Certified Public Accountant has been denied said defendant, suspended or revoked, or that the law has been or is about to be, or is being violated or disobeyed, which showing may be made by affidavit, the Judge of the Court wherein the bill shall be filed shall issue a restraining order or alternative writ of mandamus, and upon the final hearing shall grant and issue an injunction including a mandatory injunction, or a preemptory writ of mandamus, as prayed upon finding the truth and sufficiency of the bill or petition as the case may be. The Court shall have power to enforce said injunction or writ of mandamus by punishment for contempt, and by such other writs and process, mesne or final, as are permitted to Circuit Courts and shall make such other orders or decrees as its discretion and the rules shall require. Such injunction or writ may be limited in time, perpetual or conditional, as may be necessary and proper to the enforcement of said Chapter 15637, Laws of Florida, 1931. The Laws of the State now in force, and the rules of the Supreme Court regulating appeals in similar cases shall apply to appeals in cases brought under this Act.

Section 2. That all laws or parts of laws in conflict herewith are hereby repealed.

Section 3. This Chapter shall be in force from and after its passage and approval by the Governor, or upon its becoming a law without such approval.

Approved June 7th, 1935.

HOUSE BILL NO. 620

AN ACT to Amend Sections 10 and 23 of Chapter 15637, Laws of Florida, 1931, Entitled: "An Act Creating the State Board of Accountancy of This State; Providing for the Appointment of the Members of Such Board, Fixing Their Term of Office, Prescribing the Powers of Such Board, and Defining its Duties; Providing for the Issuance of Certificates to Practice as Certified Public Accountants to Persons who Shall Comply with the Terms of This Act; Regulating the Practice of Public Accounting in This State; Defining What Shall Constitute the Practice of Public Accounting; Authorizing the State Board of Accountancy to Prescribe Rules and Regulations and Requiring Such Board to Promulgate Canons of Professional Ethics;

Providing for the Revocation and Suspension of Certificates Held by Public Accountants and Certified Public Accountants; Prescribing Penalties for Violating the Provisions of This Act."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF FLORIDA:

Section 1. That Section 10 of Chapter 15637, Laws of Florida, 1931, be and the same is hereby amended to read as follows:

"Section 10. Any person who shall receive from the Board under this Act, or who shall have heretofore received from the State Board of Accountancy of this State, a certificate to practice as a certified public accountant, shall be styled and known as a 'Certified Public Accountant,' and no other person shall assume to use such title or the abbreviation 'C. P. A.' or any other word, words, letters or figures to indicate that the person using the same is a Certified Public Accountant. Any person who has heretofore received from the State Board of Accountancy of this State a Certificate of authority to practice as a public accountant shall be styled and known as a 'Public Accountant,' and no other person, except a Certified Public Accountant, shall assume to use such designation to indicate that such person is entitled to practice as a public accountant in this State.

"That any person holding a proper certificate of authority to practice as a Public Accountant in the State of Florida, and who is in good standing thereunder, and who holds a certificate as a Certified Public Accountant issued by or under the authority of another State or political subdivision of the United States, may use the letters 'C. P. A.' after his name, provided he shows immediately after such letters the name of the State or political subdivision as aforesaid under whose authority such Certificate was issued.

"Any person violating any of the provisions of this Section shall be deemed guilty of a misdemeanor, and upon conviction shall be punished by a fine of not more than Five Hundred (\$500.00) Dollars or imprisonment in the County Jail for not more than six months, or both, in the discretion of the trial court."

Section 2. That Section 23 of Chapter

15637, Laws of Florida, 1931, be and the same is hereby amended to read as follows:

"Section 23. All moneys collected by the Board from fees prescribed or authorized to be charged by this Act, shall be received and accounted for by the Board or by the Secretary of the Board, under its direction. Such moneys shall be used to defray administration expenses which shall include the per diem and actual traveling expenses of members of the Board and the Secretary attending official meetings; the salary of the Secretary and incidental expenses of administration; the cost of taking testimony and procuring the attendance of witnesses before the Board or its committees; office help and clerical help for the Chairman of the Board; costs of all legal procedure taken under the provisions of this Act for the enforcement thereof. Each member of said Board shall be paid per diem, not to exceed Ten Dollars per day for time actually expended in pursuance of duties imposed by this Act, provided that no such expenses incurred under this Act shall be a charge on the funds of the State of Florida, and payment thereof shall be limited to funds in possession of said Board at the time of payment. All bills shall be audited and approved by the Board or by a committee of the Board appointed for that purpose. Should the receipts from such fees exceed the expenses aforesaid, the balance or surplus shall be paid into the State Treasury. The Board shall have the right to retain and hold at all times a surplus in money sufficient, in the judgment of the Board, to meet all needs of the Board. In no event shall any expenses incurred by the Board be a charge upon the funds of the State. The Board shall obtain proper and approved collateral security for all bank deposits, and shall designate a depository for its funds."

Section 3. This Act shall take effect immediately upon its becoming a law.

Approved by the Governor June 7th, 1935.

HOUSE BILL NO. 619

AN ACT to Repeal Sections 28 and 30 of Chapter 15637 of the Laws of Florida, 1931, Entitled: An Act Creating the State Board of Accountancy of this State; Pro-

viding for the Appointment of the Members of such Board, Fixing their Term of Office, Prescribing the Powers of such Board and Defining its Duties; Providing for the issuance of Certificates to Practice as Certified Public Accountants to Persons who shall Comply with the Terms of this Act; Regulating the Practice of Public Accounting in this State; Defining what shall Constitute the Practice of Public Accounting; Authorizing the State Board of Accountancy to Prescribe Rules and Regulations and Requiring such Board to Promulgate Canons of Professional Ethics; Providing for the Revocation and Suspension of Certificates held by Public Accountants and Certified Public Accountants; Prescribing Penalties for Violating the Provisions of this Act.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF FLORIDA:

Section 1. That Sections 28 and 30 of Chapter 15637, Laws of Florida, 1931, be and the same are hereby repealed.

Section 2. This Act shall take effect immediately upon becoming a law.

Approved by the Governor June 7th, 1935.

N.A.C.A.

In the July 15 issue of the National Association of Cost Accountants Bulletin, Stuart McLeod, secretary par excellent, reminisced somewhat in his usual "Corner." One feature of the recollections which he presented had to do with the second president of The American Society and we are recording it as a tribute to an outstanding C.P.A.: "The first paper which was ever delivered before an N.A.C.A. convention was read by Frank Wilbur Main of Pittsburgh; the subject was 'Some Special Aspects of the Problem of Overhead Distribution and Application.' This was one of the most remarkable pieces of memorization that I have ever encountered. Mr. Main submitted his paper in advance, and then at the opening of the convention he delivered it and I was not able to detect one word of deviation from the original manuscript."

Announcements

Morris Pomerantz, C.P.A., announces the removal of his office to 786 Broad Street, Newark, New Jersey.

McIntosh, Cowan & Co. announce the removal of their accounting offices to Suite 626 Henry Building, Seattle, Washington, at which address the practice will be continued under the firm name of C. S. Cowan & Co., Certified Public Accountants.

Announcement is made of the dissolution of the firm of Spurrier, Fox & Morgan, Wichita, Kansas, as of June 1, 1935.

Elmer E. Fox and L. Irvin Morgan, Certified Public Accountants, announce the organization of the firm of Fox & Morgan, Accountants and Auditors, with offices at 708-712 Fourth National Bank Building, Wichita, Kansas.

Bosky and Kanner, Accountants and Auditors, announce their association with Mr. J. P. McNamara and the removal of their offices to 11 West 42nd Street, New York City.

Henry S. De Vault, C.P.A., announces the opening of an office for the practice of accounting at 51 Canton Road, Shanghai, China.

Douglas S. Meaden and Vernon J. Moore announce the formation of a partnership for the practice of public accounting under the firm name of Meaden & Moore, Certified Public Accountants, 1321 Citizens Building, Cleveland, Ohio.

Peat, Marwick, Mitchell & Co., Accountants and Auditors, announce the removal of their offices to the Russ Building, San Francisco, California.

Charles W. Hatter and John B. MacNab announce the formation of a partnership to continue the accounting practice established by Elmer L. Hatter, under the firm name of Hatter & MacNab, Certified Public Accountants, First National Bank Building, Baltimore, Maryland.

Frank C. Merklein, C.P.A., announces the removal of his office to 149 Broadway, New York City.

James R. Adams, Ernest B. Cobb, John H. Becker and Walter E. Kiefer, Certified Public Accountants, announce their association in the public practice of accountancy under the firm name of Adams, Cobb & Becker, Certified Public Accountants, 110 East 42nd Street, New York City.

Greenberg and Greenberg, Certified Public Accountants, are now located in 1005 Peoples Bank Building, 663 Main Avenue, Passaic, New Jersey.

Abraham J. Godes, C.P.A., announces the removal of his office to 294 Washington Street, 635 Old South Building, Boston, Massachusetts.

Forrest E. Ferguson & Co., announce the consolidation of their accounting practice with H. D. Woodcock & Co., under the name of Forrest E. Ferguson & Company, First National Bank Building, Utica, New York.

Espy Bailey, C.P.A., announces the opening of an office for the general practice of accounting at 202 First National Bank Building, Covington, Kentucky.

J. Pryse Goodwin, C.P.A., announces the removal of his office to 37 Wall Street, New York City.

We have before us copy of the *Gazette*, Montreal, Canada, wherein a goodly portion of one page is devoted to professional advertising. The columns are headed "Professional Cards." One group is devoted to patents, another group to notaries, another group to advocates, another group to surveyors. The Society of Chartered Accountants of the Province of Quebec uses a three-column, seven-inch spread for its announcement, the cards being alphabetically arranged.

Today

(Continued from page 456)

no new funds were placed at the disposal of the government. The currencies were strengthened but there were no inflationary consequences.

The devaluation of the dollar has therefore broadened the credit base of our country since the operations of the Treasury have resulted in the accumulations of huge excess member bank reserves. This lays the foundation for a tremendous credit inflation. The danger is that politics may interfere with a wise fiscal policy. Legislators all are prone to inflationist views. If there should appear any tendency upon the part of the Congress to convert the potential inflations into actual inflation and a credit debauch, all citizens, without regard to party or without regard to their views on the merits or otherwise of other phases of the New Deal, should stand firmly with the President in resisting such measures. I am not immediately concerned over the deficit of the Treasury and the amount of our national debt. What we

must fear is the danger that will confront the nation if the volume of credit should be increased as it can be increased.

THE ACCOUNTANTS' DIGEST

Will contain abstracts of worthwhile articles from leading accounting journals published in English. It will be a quarterly. The first number will appear in September. The subscription price will be two dollars a year. L. L. Briggs, Burlington, Vermont.

Wanted—Instructor of Cost Accounting

EXCELLENT opportunity for a man under 45 years of age who is a certified public accountant and a capable, dynamic instructor. Must be qualified to teach cost accounting. Other requirements: pleasing personal appearance, enthusiasm, robust health, good character and habits, patience, and ability to teach effectively. State qualifications, teaching experience, and salary requirement. Position is in Boston. Address letter to Box K-315, The Certified Public Accountant, Washington, D. C.

FOR YOUR CONVENIENCE

A NEW SALES AND SERVICE OFFICE

HAS JUST BEEN OPENED IN

R O O M 3 3 0 **CHICAGO** T E L E P H O N E
29 S. LA SALLE ST. **CENTRAL 8330**

A complete stock of Pathfinder Standard Accounting Forms, Systems, Binders, Machine Bookkeeping Equipment, Working Papers, Report Sheets, and other Accounting Supplies is now ready for immediate delivery from this new and very convenient Chicago Sales Office.

Charles R. Hadley Company
pathfinders
IN LOOSELEAF SYSTEMS

Los Angeles . San Francisco . Sacramento . Portland . Seattle . Chicago . Detroit . Atlanta . New York

Fourteenth Annual Meeting

THE AMERICAN SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

MUEHLEBACH HOTEL, KANSAS CITY, MO.

September 30, October, 1-3, 1935

OUTLINE OF PROGRAM

MONDAY		—Registration
	<i>Morning</i>	1934-35 Directors State Society Officials State Board Members.
	<i>Afternoon</i>	—Golf and Bridge State Society Officials State Board Members.
	<i>Evening</i>	—1935-36 Directors Informal Entertainment
TUESDAY	<i>Breakfast</i>	—State Society Officials
	<i>Morning</i>	—Representative Convention
	<i>Afternoon</i>	—Opening Program
	<i>Evening</i>	—Entertainment
WEDNESDAY	<i>Breakfast</i>	—State Board Members
	<i>Morning</i>	—Governmental Accounting Program
	<i>Afternoon</i>	—Accounting Practice Program
	<i>Evening</i>	—Entertainment
THURSDAY	<i>Breakfast</i>	—American Society Officials
	<i>Morning</i>	—Office Procedure Program
	<i>Afternoon</i>	—Federal Government Practice Program
	<i>Evening</i>	—Banquet

SPECIAL PROGRAMS FOR LADIES EACH DAY

Burroughs

can help you

More and more the business man appreciates that service which the accountant renders when, as a result of carefully analyzing the figures, he suggests ways and means to make the business more profitable.

If much of the mental drudgery of auditing can be eliminated, more time is available for the accountant to give to the broader aspects of his profession—those valuable services which contribute so much to the betterment of business. By providing accurate figures, speedily and economically, mechanical figuring equipment makes the checking and auditing easier to handle.

That is why so many accountants recommend Burroughs machines to their clients. Burroughs Adding, Book-keeping, Calculating and Billing Machines are made in many styles and sizes to handle every figure job.

The Burroughs representative in your community will be glad to co-operate with you. Let him show you how Burroughs machines can furnish the figures you need in rendering service to your clients—and furnish them in less time and at less expense.

BURROUGHS ADDING MACHINE COMPANY
DETROIT, MICHIGAN

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

20 Cents

The

September, 1935

CERTIFIED PUBLIC ACCOUNTANT

Official Organ of The American Society of Certified Public Accountants

The Accountants Publishing Co.

In This Issue

	PAGE
<i>Research in Accountancy</i> —WILLIAM C. HEATON	515
<i>Is Accounting a Profession or a Business</i>	
FRANK WILBUR MAIN	516
<i>Kansas City</i>	518
<i>Professional Corporations</i>	519
<i>Work</i> —FREDERICK H. ECKER	520
<i>Functions of the Accountant in Coordinating Operations and</i> <i>Finances</i> —ALEXANDER S. BANKS	521
<i>Canadian Accountants</i>	524
<i>The Case for the Auditor at Common Law</i> —A. C. LESLIE	525
<i>Seen in Published Financial Statements, Reservations of Capital</i> <i>Stock</i> —W. T. SUNLEY	536
<i>Accounting for Bond Discount and Expense Applicable to</i> <i>Refunded Issues</i> —WILLIAM M. SHANAHAN	543
<i>Fallacy of Graduated Income Taxes on Corporations</i>	
EDWARD P. TREMPER, JR.	544
<i>Wee Bits on Accountancy</i> —LOUIS S. GOLDBERG	545
<i>The Public Accountant</i> —FRANCIS E. ROSS	546
<i>Mouse Hunting in Germany</i> —GEORGE F. McNICHOLS	551
<i>Book Reviews</i>	552
<i>A Short Trip</i>	556
<i>Questions and Answers Department</i> —STEPHEN GILMAN	558
<i>Talking Shop</i> —LEWIS GLUICK	561
<i>C.P.A. Examination Questions, May, 1935—Practical</i> <i>Accounting</i>	563
<i>Minnesota Probate Code</i>	569
<i>The Forgotten Lawyer</i> —R. ALLAN STEPHENS	570
<i>State Society News</i>	572
<i>In Memoriam</i>	573
<i>Certified (?)</i> —CHARLES WEISSINGER	574
<i>Sir James Martin</i>	575
<i>Civil Service Examinations</i>	576
<i>Announcements</i>	576
<i>State Board News</i>	576
<i>Fourteenth Annual Meeting Program</i>	577

To those who plan to take the next C.P.A. examination

IN addition to its regular Course, the International Accountants Society, Inc., offers a special Coaching Course for Accountants who are planning to take the C.P.A. Examination.

This Course will be supplied only to those who are already competent accountants, as no attempt is made to teach general accounting in this course. The instruction is pointed directly at the C.P.A. Examination.

Something more than a knowledge of accounting is necessary to insure success in the examination room.

Solving examination problems is vastly different from the usual work of making

Particularly noteworthy features of the training are:

- 100 problems in Practical Accounting with solutions and comments
- 100 questions and answers in Accounting Law
- 100 questions and answers in Auditing
- 100 questions and answers in Theory of Accounts

Elaborate explanations and comments that include, in addition to the finished statements or solutions, such items as suggestions for "Notes to the Examiner," working sheets, side calculations, use of proper terminology, and discussions of authoritative opinions.

Problems and questions (1) actually used in a C. P. A. or an A. I. A. examination, or (2) specially prepared to train the candidate in handling certain points likely to be encountered in the examination.

Personal correction, criticism, and grading of every examination paper by a Certified Public Accountant who has himself passed the C. P. A. examination. There are sixteen such Certified Public Accountants on the Active Faculty of the International Accountants Society, Inc.

audits, installing systems, or conducting investigations. Many men with little or no practical experience can solve C. P. A. problems readily—many others with years of experience flounder pitifully in the examination room. WHY? The candidate is required to work at top speed. He must work with limited information. He has to construct definitions. Very often it is necessary for him to use unusual working sheets.

The C. P. A. Coaching Course given by the International Accountants Society, Inc., prepares you to meet such conditions. The fee is \$42, and the text consists of twenty lessons.

A BOOKLET, "How to Prepare for the C.P.A. Examination," is available for those who are interested. For a free copy, just write your name and address below and mail.

INTERNATIONAL ACCOUNTANTS SOCIETY, Inc.

A Division of the ALEXANDER HAMILTON INSTITUTE

To the International Accountants Society, Inc., 3411 South Michigan Avenue, Chicago, Illinois.

Send me the special booklet, "How to Prepare for the C. P. A. Examination," which describes your special Coaching Course for Accountants.

Name _____ Company _____

Address _____

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

**When Your
Counsel is
Sought**

Some Facts to Consider—

MANY a creditable career in professional fields has dated from the timely and candid advice given some younger inquirer by an experienced practitioner. To the accountant, for example, who may be called on to play this role, and who likes to base his suggestions regarding a good training source on *facts*, we are glad to offer certain fundamental facts about LaSalle Higher Accountancy Training. Among others, these—

LaSalle Texts Used in 460 Resident Schools

A distinct compliment to the practicality and thoroughness of LaSalle home-study texts. Originated by LaSalle, the "Problem Method" of presentation employed—by keeping the student steadily in line with specific requirements on the job—condenses maximum training values into minimum study limits. Repeated comments by accountants center favorably about this resultful phase of LaSalle training.

Instructors Are Full-Time C.P.A.'s

All instruction is also personally supervised by Mr. Wm. B. Castenholz, A.M., C.P.A., whose standing in Accountancy circles is well recognized. In addition to a full-time C.P.A. instruction staff, an Advisory Board of fifteen outstanding accounting authorities gives effective counsel on the various phases of this training.

Nearly 1400 C.P.A.'s Are LaSalle-Trained

Under LaSalle's direction nearly 1400 Certified Public Accountants (by examination) in the United States have secured partial or complete training, or taken their C.P.A. Coaching . . . a record to consider seriously, when it is remembered that there are scores of accountancy schools and courses available to the prospective student. Far from being accidental, this record we feel is a signal tribute to the scope and effectiveness of our training.

Not a "Course," But a Success-Building Plan

Technical training alone never yet made a successful Accountant. That is why LaSalle safeguards every student with such supplementary services as special consultation privileges, personality development, individualized instruction, progress reports to employers, and a definitely helpful placement service. To anyone interested, our 64-page summary of LaSalle training will be sent without obligation, and such a request may be the first step toward very definite professional progress.

LaSALLE EXTENSION UNIVERSITY

Department 9351H

Michigan Ave. & 41st Street

Chicago, Illinois

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

FOR YEARS UNDERWOOD ELLIOTT FISHER HAS
CARRIED IN ITS LITERATURE THE STATEMENT:

"Ask Your Accountant how our machines will help you"

Thus we invite the cooperation of members of the accounting profession in connection with the effective application and installation of Accounting Machines.

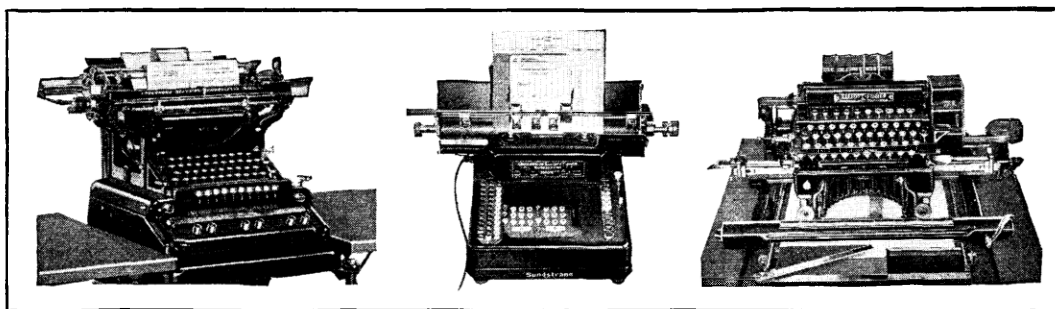
Underwood Elliott Fisher maintains a Library of Machine Accounting Applications which

is available to you upon request. Please feel free to call upon us, without obligation of course, if we can be of assistance to you.

Accounting Machine Division
UNDERWOOD ELLIOTT FISHER COMPANY
*Accounting Machines . . . Typewriters
Adding Machines
Carbon Paper, Ribbons and other Supplies*
342 Madison Ave., New York, N. Y.
Sales and Service Everywhere

UNDERWOOD ELLIOTT FISHER ACCOUNTING MACHINES

Every UNDERWOOD ELLIOTT FISHER Accounting Machine is backed by nation-wide, company-owned service facilities



Underwood Model

Sundstrand Model

Elliott Fisher Model



There is an Underwood Elliott Fisher Machine for every accounting purpose
Underwood Elliott Fisher Speeds the World's Business

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

The Certified Public Accountant

DEVOTED TO THE INTERESTS OF THE C.P.A., HIS CLIENT, AND THE PUBLIC WELFARE

VOL. XV

September, 1935

No. 9

Editor: DURAND W. SPRINGER. Published monthly by The Accountants Publishing Company. *Publication office:* Candler Building, Baltimore, Maryland. *Editorial office:* National Press Building, Washington, D. C. All communications for publication should be addressed to the Editorial office, National Press Building, Washington, D. C. *Subscription price:* A year of 12 issues, \$2.00; twenty cents a copy. Entered as second-class matter, January, 1934, at the post office at Baltimore, Md., under act of March, 1879.

"Have an idea first, then dramatize it."

JOHN WANAMAKER.

The President's Page

Research In Accountancy

By WILLIAM C. HEATON, C.P.A.

NOT long ago an eminent accountant spoke of the need not only of standards for guidance in practice but also especially of authoritative statements of fundamental concepts in accountancy. There are to be sure, he said, techniques of procedure which have been developed and forms of statements which have become conventional through general acceptance. That the techniques are not altogether satisfactory and the statement forms not sufficiently illuminating, most of us will concede. Indeed the divergence of opinions expressed during discussions and in published articles and books, abundantly testifies to the need of developing a clearer understanding of basic principles.

The accountant referred particularly to the need of a better knowledge of "income" and "capital" and discussed a plan he had in mind of obtaining statements concerning them which could be considered authoritative.

In the medical field, there are the laboratory technicians and the great specialists who through their hospital connections and their private practices find the opportunity to apply the knowledge gained and proven in research institutions. This knowledge is made available to practicing physicians everywhere. It may well be questioned whether the great universities with all the increasing attention given to the subject, serve quite the same purpose for accountancy.

In the field of law, the conditions are more closely analogous to those in the field of accountancy. In many cases the needs are identical for the statutes and the court decisions specify with precision, practice which attorneys and accountants must follow in the various jurisdictions. The tax laws with the explanatory regulations and the estate laws establishing fiduciary relationships are often to be considered less as guides and more as exactions in practice. Not infrequently the exactions are at odds with what are considered sound accounting principles.

Accountants have welcomed, but some have viewed with chagrin, the

requirements for disclosure, for which they have long contended, established by the Securities and Exchange Commission; chagrin that the requirements were imposed from without and not established by the profession.

What, then, is desired? Perhaps a commission made up of certified public accountants, professors from the universities and attorneys—men whose erudition, wide experience and character command confidence—to study and from time to time make pronouncements.

The need of the accountancy profession is research.

Is Accounting a Profession or a Business?

by FRANK WILBUR MAIN, C.P.A.

FOR perhaps the first time in the history of the Certified Public Accountant movement, the question as to whether public accounting is a profession or a business has become a rather serious one. Ever since 1896, when the first C.P.A. Law was passed in New York State, the question has been raised innumerable times, but invariably in more or less light vein, "Is accounting a profession or a business?" The answer invariably has been that public accounting partook of the nature of both. In other words, a man had to be a good business man in order to succeed in public accounting. The fact, however, that public accounting was a profession was universally recognized and all the laws of the various states that have been passed during the past 39 years have been on the assumption that accounting required not only skill and technique, but that in verity it was a learned profession. During this period of 39 years the qualifications for entrance thereto have been constantly and continuously increased.

Considerable confusion has always existed as to just what is a profession and just what is a business. There is no question but that every professional man, to succeed, must also be a good business man. Likewise every business man, to be entitled to honor, must carry on his business on a high and ethical plane. The difference can be better illustrated than explained:

Perhaps one of the finest business organizations in the country is that of the Mayo brothers, the internationally known surgeons of Rochester, Minnesota. All business transactions relating to the conduct of their profession are carried on in the most efficient manner. No one, however, would think of saying that the Mayo brothers were other than professional men of the highest type and skill. People ill and in suffering

come there from all parts of the world and, as a result of the professional skill of this medical organization, leave singing the praises thereof.

A successful Certified Public Accountant must, in a degree, likewise carry on the business features of his own affairs ably and efficiently. If it is true, however, that a man, to be a successful Certified Public Accountant, must not only study and prepare himself for long years, but after receiving his Certified Public Accountant certificate must continue to read and study, must, during his entire professional career, continue to associate with and learn from his fellows in the profession and must, at some point or other, acquire a technique and skill either in the diagnosing of sick businesses, or in prescribing for the better conduct of said businesses,—he is certainly not merely a business man, if he be such, but also, in the truest sense, a professional man.

No one, I believe, would attempt to say that a grocer, however efficiently he operated his business, is other than a business man. The fundamental difference between a business man and a professional man is this: a business man can, by diligent work and much effort, establish a business so that as the years advance he need give less and less attention thereto. A true professional man, whether he be a minister, a lawyer, a doctor, or a certified public accountant, must, throughout his entire life, continue to study and struggle with the problems of those whom he is serving. The greater his success, the heavier his professional responsibilities.

In a recent hearing on a bill which had been presented at one of our State capitals the statement was made not once, but was reiterated by the legal representatives of a large group of our public accountants, that accounting was not a profession, but was a business. In another State, the Attorney General has ruled that public accounting is not a profession, but a business.

If those accountants who are taking this position are correct, some of us who have been devoting the best years of our lives to the development of a profession have certainly been wrong. It is always possible that we may become confused. If, however, accounting is a business and is not a profession, then we do not need State boards of examiners, professional codes of ethics, and professional societies. We do need, however, trade associations such as other business men avail themselves of.

This writer hopes that the matter may be thoroughly, frankly, and good-humoredly discussed. Whether accounting is a profession or a business, there will still be much work to do. The form that our laws should take, and the control of the profession or business, whichever it may be, would, however, vary. The public is always, however, going to demand the services of public accountants. Let us, therefore, be sensible and practical in our discussions of this question. It is indeed our livelihood, and we will continue to serve our particular section of the public, whether we are engaged in a profession or a business.

KANSAS CITY

*"And they, while their companions slept,
Were toiling upwards in the night."*

—Longfellow.

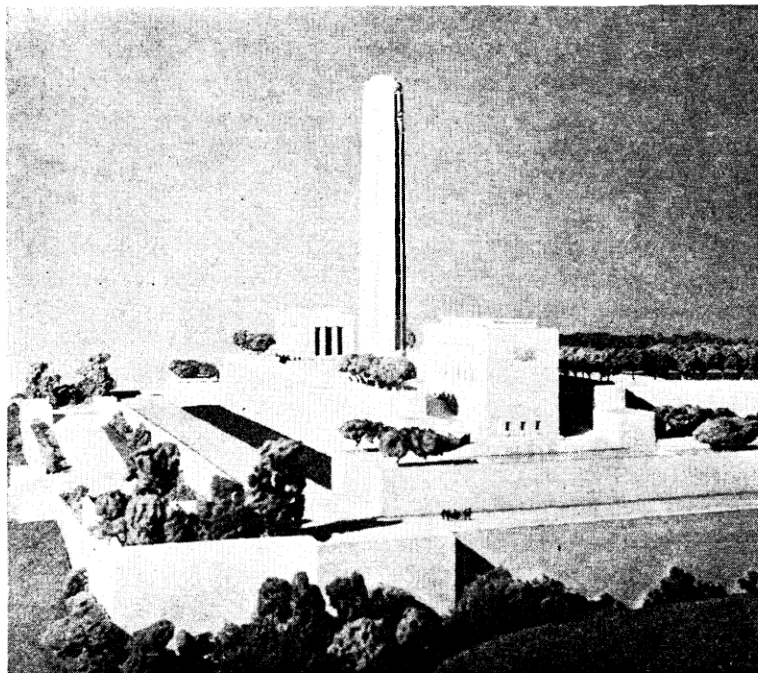
DURING the last five years, while many cities have been suffering from the "depression sleeping sickness," Kansas City has been wide awake and has gone steadily forward with an intensive building program. These modernistic buildings, which have been the outgrowth of this program, have been erected not only with the thought of serving the public with the greatest degree of efficiency but with the thought of adding to the beauty and personality of the city.

The new post office plant, located on the Union Station Plaza, is one of the most modern in the country, both in construction and in special equipment, and was built at a cost of over \$2,500,000 exclusive of the site which was an additional \$825,000. These cost items indicate the

determination of the Post Office Department to provide Kansas City with a Federal Building in which she could take just pride and at the same time equip the place for the highest efficiency in mail handling. Both in exterior and interior aspects, the Kansas City Post Office is an architectural triumph.

The Jackson County Court House is worthy of study by those who have an eye for beauty. The tall stately building forms a suitable background for the impressive statue of Andrew Jackson which faithfully guards the front entrance.

The Municipal Auditorium, now under construction, will take its place in the front ranks of similar buildings in other cities of the United States. It was built after a thorough study of the requirements of practically all of the country's largest conventions and trade shows and was designed to meet those requirements. It will



The Liberty Memorial

be air cooled and air conditioned throughout, and the latest equipment will be installed to facilitate the handling of large conventions. This is just another step that Kansas City has taken to make her guests comfortable and one of the few things that will help her to maintain the unchallenged title of "America's Most Hospitable City."

Kansas City's everchanging skyline, which is the pride of the entire Southwest, has gone steadily upward in the last five years with the building of several new office buildings. It would be hard to find in any city in the country a more beautiful structure than the Kansas City Power and Light Building with its lighted tower which can be seen for miles around. The clocks on the turreted Fidelity Bank Building lend an old world atmosphere to this ultra-modern metropolis and transport the more imaginative to the streets of foggy London or the walks of gay Paris. The Bryant Building and the Professional Building are other skyscrapers which have added to the rugged irregularity of Kansas City's picturesque skyline in the last five years.

Kansas City's aesthetic tastes have not been relegated to the background in this forward movement. In all the world, perhaps, no great art gallery has a setting to surpass that of the William Rockhill Nelson Gallery of Art. Its twenty acres of carefully landscaped grounds are an epitome of the rise of the great Southwest, to which Kansas City is the gateway. However, noble as the exterior and setting of the Gallery are, they serve but as a prelude to the full symphony of beauty which bursts upon the visitor as he enters the great Kirkwood Hall. From the spacious walls glow the soft yet living colors of rare old tapestries and below, priceless object d'art group themselves in stately order. Up the steps of this Temple, built to endure a thousand years, will pass the feet of generations who will look on us as we regard the days of armored knights. It will be a marvel to them, perhaps, that such early settlers of a new found land could so soon have set up a great shrine of art.

From the beginning Kansas City was destined to be a place of beauty and these man-made buildings have only enhanced

the crowning glory which nature long ago bestowed on this tract of land known as the "Heart of America," and they will stand for years to come as visible proof of the ingenuity and artistic ability of the Kansas Citizens of this century.

Professional Corporations

The last session of the New York Legislature passed a professional bill which Governor Lehman signed. In short, it provided that no corporation thereafter formed should practice or offer to practice professional engineering or land surveying in the State and that thereafter no assumed name may be used which involves the words "engineer" or "engineering" or any modification of those words except it is non-profit and composed exclusively of professional engineers.

Existing corporations may continue provided the chief executive officer of the corporation and all the employees carrying on the actual practice of engineering, are licensed professional engineers but no existing engineering corporation is permitted thereafter to charter its name or sell its charter or transfer its corporate rights without the consent of the State Education Department.

The New York *World Telegram* for June 17 contained one of the most interesting illustrations of good government which has appeared in a long while.

Mt. Kisco elected a new supervisor who took office in January of 1932. He had been operating an automobile sales agency but turned it over to his brother and decided that he would run the affairs of the township on a strictly business basis. Since January of 1932 the township has reduced its bonded indebtedness by \$205,750. It has cut its own operating costs about one-third. It has lowered the town tax rate from \$4.48 to 27c. This merely illustrates what can be done when an individual is elected to a political job which he takes seriously and believes that he is an agent of the entire community which he serves rather than a distributor of public patronage.

WORK

by FREDERICK H. ECKER, President of the Metropolitan Life Insurance Company,
Guest Editorial Writer in the July *American Magazine*

MANY years ago, in reply to a question put to me, I said, "If I were to suggest a general rule for happiness, I would say, 'Work a little harder; work a little longer; work!'"

There has grown up in this country a philosophy which may make my suggestion look like a copybook maxim of an outworn day. There seems to be a general belief that work is merely a means of securing leisure. Too many men believe that we work in order to be released from work. That attitude is fatal to creative endeavor and progressive life.

The adoption of my philosophy would reverse the present order. One would find himself enduring leisure for the privilege of working. When I speak of work, I do not mean the mere performance of an irksome task. Real work consists in solving the problems of life for oneself and for others by unceasing thought and action.

In brief, work is man's functioning at his best—to the best social advantage. I cannot imagine anyone wanting to take a vacation from it.

It is very easy these days for youth to be misled by such terms as the "new leisure," the "five-day week," and the "six-hour day." These terms are used in discussions of employed labor, not of work. Work is timeless. It knows no limitations except those of energy. It is man in action. One can lose a job. One need not lose work.

On the other hand, do not be deceived into thinking you are at work simply because you are employed eight hours a day. Where is the mind when the hand is pulling the lever? Where is the imagination while the motor is humming? Some jobs are the most stupefying kinds of idleness. A great express company was once founded by a messenger who worked while he carried packages. He thought while he rode. A barber once became an oil magnate because he was willing to study ge-

ology between customers. And much of the real work in life is accomplished after the job is done. The lamplight in the window is still a symbol of man's progress, regardless of all new economics and psychology.

Anthony van Leeuwenhoek, the famous Dutch naturalist, had a routine job in a merchant's office—a dusty place piled with goods and papers. But he did not complain. When he left the office at night, he went to work grinding lenses for microscopes. Through these tiny windows he peered into the world of the invisible, and discovered bacteria—enemies of man! That was his work. He pursued it until death.

Many copybook maxims of the old day are still fresh and true. One cannot dodge them. Self-fulfillment is not achieved in leisure. It comes of suffering, toil, discipline—work! Novels are still written on kitchen tables when the plow is put away. Repetitive laborers still study their machines while they stamp out metal patterns—study and think and devise. The artists, the inventors, the scientists, and the builders of the future are not idle. They are working whether they have jobs or not, preparing for the fulfillment of their dreams. They have no time, even, to discuss their own philosophies of life, so busy are they in making a life.

It is wise to take stock of oneself in youth, then set the hand to the plow. Talent? Ability? That is all beside the point. Work is the principal factor. I say that if one plows the field and sows the grain, the harvest will come as surely as day follows night. We make our talent, ability, yea, genius, through discipline and endless work. No philosophy of leisure, of loafing and inviting the soul, of new economy or do-as-you-please psychology can outwit the necessity of work as the forerunner of harvest and the fulfillment of self.

The Functions of the Accountant in Coordinating Operations and Finances

by ALEXANDER S. BANKS, C.P.A., New York City
Address before Pennsylvania Water Works Association

WHEN I first got out of college and was apprenticed to a chartered accountant in Scotland I thought that the only function of the accountant was to see that the books were accurate and honestly kept. In those days we did not have as many adding machines as we do today and I became a sort of human adding machine, and besides could check vouchers more quickly than the boss himself. Considering how good I was, and that instead of receiving a salary I was paying an apprenticeship fee, I suppose I should have felt badly treated, but I must confess that for a long while I felt I was overpaid, for I never found a mistake in the computations, and as for the many vouchers I reported as missing, they were all eventually found. As I think back, there are a great number of suggestions I might have made, in spite of my lack of experience, to help the clients in their businesses. These ideas, however, would have taken much of my time to develop, and my usefulness was being measured by the number of pages of footings I did and the number of vouchers I checked.

To this very day many business men, and accountants too, feel that the accountant's duties are to verify the honesty and accuracy of accounts, yet that is merely the foundation for our true function. Accounting is more than keeping and verifying records, it is the interpretation of the records in order to guide the future policies of the business. I continually keep cautioning the young men in my office, and the older ones too. I say to them, "If the work you are doing will not show the client how his costs and expenses can be reduced or his revenue can be increased, he is overpaying me and I am overpaying you."

One reason why many of us fail to appreciate our chief function as accountants is because we think of records as an end

in themselves instead of merely a means to an end. The real end I refer to, of course, is the purpose for which industry exists—to produce greater values for the public than that paid by them. The measure of whether this is being accomplished is whether the business is earning an adequate profit on the investment. The earning of adequate profits requires first, the planning and execution of operations, and second, the proper handling of finances. A business is like a machine. It must, in the first place, be technically efficient, that is, its operations must obtain results exceeding the costs and leave a net operating profit. Moreover, the investment must be sufficiently low so that this net operating profit will be adequate to cover the interest on the investment and leave a surplus to enable the return of the capital to the investors.

Wherever we have varying plans and policies it is necessary to have a proper basis for coordinating them, and, in my opinion, in business this is the function of the accountant, whose data enable the management to base its decisions on all the factors involved. You gentlemen probably see this ignoring of the full effects of a program nearly every day. The manager of the new-business department of a public utility is so concerned with getting increased revenues, that he overlooks the resulting increase in costs and expenses, and to what extent the heavy investment in facilities may be necessary. The head of the engineering department is apt to submit a program to improve or expand the plant facilities, and be so enthused with the efficiencies he expects to obtain that he overlooks the fact that there may be little immediate prospect of working the new plant at that full capacity, without which the investment becomes unprofitable. Moreover, he is likely to overlook the fact that if funds are invested in the addi-

tional facilities they may be diverted from perhaps more necessary purposes, the payment of maturing obligations for example. Even the accountant's immediate superior, the treasurer, is himself likely to overlook some of the results of his financial program. When funds are easy to borrow he may become reckless in incurring debts, when conditions are depressed he may become so pessimistic that he will veto expenditures necessary to operate profitably. These illustrate the principles which should guide you in determining whether a business program or policy is wise or not.

We should, in the first place, see what effect an operating policy will have on the net income. The term "net income" is strictly defined in accounting, primarily in order that the capital of the business may not be consumed or distributed under the mistaken belief that it is the income which is being consumed or distributed. For this purpose, it requires our making certain that all costs are considered, including the depreciation or retirement of property. However, as a result of thinking of net income in this light we have a tendency to adopt the same rule of computing net income in estimating the effect of a new program or policy, when it is perfectly correct in such a case to ignore certain costs and expenses. Suppose we are estimating the net income that will result from a change in program or policy—for example, an expansion in operations. Certain costs and expenses have already been incurred, for example, the depreciation and interest in connection with the plant we already have. These costs are fixed and can be reduced only to the extent that we obtain a revenue from them. In such a situation, if we have already incurred the costs of earning this revenue, any program or policy which increases the gross revenues is all net income, a principle which explains why in certain industries it may be profitable to sell part of the production at unit prices which are even less than the average cost of production. We can do so because most of the overhead included in the average cost is incurred regardless of the quantity of units sold. The operating man's viewpoint is generally that if a plant has already been acquired, so that

the annual overhead in connection with it has been incurred whether we operate it much or little, then every increase in the gross revenue is all velvet. To a large extent this is true, and its truth should be recognized by us accountants. We should however, call attention to the fact that carried to an extreme this policy is a source of danger. First, because the fixed overhead is not completely, but only partially, fixed, so that beyond a certain point an increase in revenue does bring more than a proportionate increase of the fixed overhead. Second, where excess production is sold at a lower price, it results in a demand on the part of those paying the higher price to get a reduction, evidenced in your industry by pressure on the Government to force a reduction in rates. Third, in unregulated industries, it results in cut-throat competition, because a reduction in price by one member of an industry will be followed by cuts by other members.

Another principle to guide you in passing on a proposed program is that net operating income must not only be adequate, considering the additional investment required in any new facilities, but if the funds for such facilities are borrowed, the net operating income must be sufficient to repay the borrowed funds when the debt becomes due. A common mistake, often so tragic for the business, is to freeze the surplus profits into plant assets so that funds are not available to pay the debt. This mistake is due to a false optimism which expects that lenders will be willing to renew the debt or that funds needed to pay it will be readily obtained from others. Even if the funds invested in a business come from stockholders who have no claim for the repayment of their investment, there still remains the financial problem of the extent to which surplus should be retained in the business. This problem of how to retain the surplus needed in the business and at the same time to distribute it to satisfy stockholders has been solved by the expedient of paying dividends in stock. Theoretically, if a corporation earns money for its stockholders, it should make no difference to them if it is evidenced by the increase in the book value of their stock rather than

by their receiving an additional certificate. As a matter of fact, however, every stockholder feels he is better off by receiving a certificate representing his share of the profit—and so does the investing public, judging by the fact that although two companies may be earning the same annual income per share, the stock of the company that pays dividends in stock will be higher priced than the one that pays no dividend. Similarly, the investing public feels there is some gain to them where a corporation splits up its stock into smaller units. A share valued at \$100, when split into four shares, will in ordinary times be valued at more than that amount. It is as if my \$5 bill exchanged into five singles would have a greater value than \$5. These problems of meeting obligations to bondholders and stockholders all involve finance, just as problems of the location of a plant, its size, and its engineering characteristics, and the problems of dealing with workmen and customers involve operations. In themselves they are outside the province of the accountant, yet, as I have tried to point out, he should have the data by which to intelligently advise on them.

During the past few years I have had the privilege of being consulted about many sick businesses. In the case of some of them they had no good reason for their start; the industry had sufficient capacity, which was economically operated, to take care of normal requirements, and there was no room for a new concern. The fault was in mistaking boom demand for normal demand. In other cases, the sickness was due to faulty operation, resulting either in insufficient revenues or excessive costs and expenses; the cure for this was to change management or policies, most often both. By far the largest group of sick businesses, however, was composed of those which had efficient management and adequate operating policies but were badly financed. They were started or expanded at a time when costs were inflated so that they could not in normal times earn enough net operating income to pay the interest on borrowed capital; or they were financed with too large a proportion of borrowed money, so that even the extravagantly high operating profits originally anticipated—which were not realized,

of course—could never have been accumulated by the time the debts became due. As I have indicated, the operations and finances of a business are distinct from one another. The first is a matter of dealing with human beings—workmen or customers—and with tangible things, such as machinery and merchandise. The second, finances, on the other hand, deals with money, where it can be obtained and on what terms and how it is to be invested so as to meet the obligations to those supplying the funds. In many respects, however, operations and finances are so interrelated that it is not possible to solve a problem involving one without also examining the problems involving the other. In your industry where the solution of many operating problems requires that an investment be made in additional or improved plant assets, it goes without saying that such an investment is advisable only if revenues will be sufficiently increased thereby, or the expenses will be sufficiently reduced. Yet, no matter how profitable such an investment may be, the acquisition of the plant assets from a financial point of view simply cannot be made unless the investment will result in obtaining enough funds for the business to pay interest or dividends to those who supplied the original capital and enable the business to accumulate funds with which to repay the persons supplying them. This latter point, the repayment of invested capital, is particularly important where it is borrowed from bondholders rather than invested by stockholders. This is the reason that it is safer for the business to raise money from stockholders rather than bondholders, although when times are good and the business is earning a yield on the investment higher than the current bond yield, there is a strong temptation to borrow money. Borrowing under such circumstances is, of course, more profitable, but it has an offsetting disadvantage. If hard times come and the earnings drop, interest must be continued to be paid. Moreover, the borrowed money must eventually be repaid, and the payment may be due when conditions for refunding are bad, as they are today. Whenever there is a bond issued plans should be made to pay it off in installments, and in your industry, where the

turnover of assets is slow, the bonds should be issued only on a long-term basis.

We accountants are primarily not operating experts, neither are we financial experts, but we can pass judgment on programs and policies proposed by the operating and financial men. The income statements we periodically prepare show where the revenues come from and their trend, where the costs and expenses are incurred and their trend, and the unit costs of the various operations, and with these we can make comparisons between one period and another, and estimate the future income and expenses. The balance sheets we periodically prepare show the details of the assets and liabilities, and by a comparison with previous balance sheets we can estimate the future trend of the finances. Important as they are, the income statement and the balance sheet, showing what has happened, are of less significance as a guide for the business than budgets showing estimates of the future. While these budgets depend to a great extent on the income statement and balance sheet they should, if intelligently prepared, take into account the changes in program planned by the executives and the expected changes in conditions both in the industry and in the locality served by the business. In your industry consideration must be given not only to the immediate effects of a program or policy but more particularly to the long-term effects. Whereas in the ordinary business, budgets made up for the coming year are usually sufficient, in your industry it is often necessary not only to make up such budgets but budgets for a number of years ahead. Difficult as it is to do so, such long-term budgets should always be made up when there is a major program considered for adoption, if we are not to overlook important consequences of our program. Needless to add, as the sole purpose of such budgets is to provide against unknown dangers, it is better in estimating the revenues and costs to err on the safe side and not be over-optimistic, for in spite of every case there will always be dangers that we cannot foresee. Furthermore, the data should not only give us the facts on which to criticize programs and policies submitted by others, but rather

suggest programs and policies which we ourselves can originate for the operating department and the treasurer's office. You will appreciate from what I have said that data from one's own business are not sufficient basis for judgment. The accountant in addition to his own records should also consider whatever records are available of others, particularly of those in the same industry. There was a time when even scientists guarded their secrets for fear rivals would get at them. Today, not only do the scientists exchange their knowledge, but professional men do so, and even business men, for we have all learned that there is gain to all of us by this exchange. We not only get a hundred new ideas for every one we part with, but the very disclosure of our prized idea results in that criticism of it by others which enables us to perfect it. Much of the help that public accountants bring to a client is not from an analysis or interpretation of his own accounts but of the accounts of other clients with identical problems. The value of a meeting such as we are holding today is that it brings to each one of us ideas, experiences and opinions which he otherwise would not have.

Canadian Accountants

The Association of Accountants and Auditors of Ontario has an arrangement with the University of Toronto under which certain courses are conducted by it as a preliminary training to the examinations given by the Association. The department of university extension of the University of Toronto conducts the examinations, subject at all times to the approval of the Board of the Association.

Four courses are offered. The Preliminary Course includes English literature and precis-writing, English composition and business letter writing, business mathematics, accounting, law, and economics. The Intermediate Course includes studies in applied economics and civics, commercial law, business mathematics, statute law, auditing, and accounting. The Final Course covers statute law, corporation finance, applied economics and civics, auditing and investigations, and accounting.

The Case for the Auditor at Common Law

by A. C. LESLIE, LL.B., L.I.C.A.

(Reprinted from *The Commonwealth Journal of Accountancy, Australia*,
July 1, 1935)

MANY and arduous as are the duties of an auditor to his client, they are being added to from time to time by statute and by case law decisions. Duties imposed by statute are for most purposes clear and readily ascertainable. Further, they must be accepted in their entirety, and apply irrespective of any particular circumstances. Case law, however, is on an entirely different footing. It is true that in England and several of the States of the Commonwealth duties of auditors arising out of case law decisions have been embodied in various statutes, but the conduct and work of an auditor is still governed in a great degree by case law.

It is in this connection that difficulty arises. Statutes generally retain their form and established meaning until amendment, but case law is progressive, for Judges, whilst professing to interpret and apply national custom or common law, make new law from time to time, or bring old law into harmony with new circumstances, working generally on a basis of justice, common sense and practical convenience. Therefore, with the growth of modern business we have an expansion of the scope and sphere of the auditor, and, it is contended, a corresponding increase in the measure of an auditor's duties and liabilities to his client. This would not be at all unreasonable were it not for the complex nature of modern business with holding and subsidiary companies, and the countless methods which may be adopted by unscrupulous business men occupying positions of power and trust, to dupe not only the persons placing trust in them, but also the auditor engaged in completing an investigation of the books.

Between the unscrupulous director or manager and the shareholder stands the auditor, and the Courts in setting the standard of an auditor's duty have, it is suggested, paid the profession a high compliment. It must be confessed that the

profession is in no small degree responsible for the high standard set by the judiciary. Rightly or wrongly, the average business man has, as a result of experience, come to regard his auditor as one who will regulate his business, advise him of many of his shortcomings and virtually ensure avoidance of loss by defalcation, however skilful the defaulter and however unlimited his opportunities to deceive. It is suggested that many of the profession have gone too far in accepting this imaginary standard, and, not unnaturally, the Courts have, to a certain extent, accepted the position and in the result have fixed a legal standard which, it is contended, is too high.

How many auditors, before *in re City Equitable Fire Insurance Company, Limited* (1925) 1 Ch. 407, was decided, would have, in the circumstances, questioned the certificate of an eminently respectable firm of stock brokers very closely connected with the company in business, as to the securities they held for the company? Yet that case decides the point against an auditor who took the certificate in circumstances entirely free from suspicion.

It will be almost universally agreed that the general standard is too high, at least for particular cases, and evidence of this is found in numerous charters and articles of association containing clauses expressly designed to limit the liability of auditors. This is not due to any desire on the part of the auditor to escape from his duty to his client, but arises from a recognition by all concerned that there must be some limit to the responsibilities which the auditor undertakes.

Let us for a moment consider the position in other professions. Halsbury, 2nd Edition, Vol. 1, at pages 244 and 245, states the proposition as follows:—"Where an agent acts for reward, a higher standard is exacted. The care, skill

and diligence required is not merely that which he in fact possesses, but such as is reasonably necessary for the due performance of his undertaking. If he is an agent following a particular trade or profession, and holding himself out to the world for employment as such, he represents himself as reasonably competent to carry out any business which he undertakes in the course of such trade or profession. He must then show such care and diligence as are exercised in the ordinary and proper course, and such skill as is usual and requisite, in the business for which he receives payment. In considering the question regard must be had to the nature of the business and such special usages as may be binding on the principal. But the agent is not responsible for failure to go beyond his reasonable duty, even though loss is occasioned thereby, which might have been avoided by extra care, skill or diligence."

In *Purves v. Landell*, 12 Cl. & F. 91, an action by a client against his attorney for negligence, Lord Brougham states the position, "But it is of the very essence of this action that there should be negligence of a crass description, which we call *crassa negligentia*, that there should be gross ignorance, that the man who has undertaken to perform the duty of an attorney, or of a surgeon, or an apothecary (as the case may be), should have undertaken to have discharged a duty professionally, for which he was very ill qualified, or, if not ill qualified to discharge it, which he so negligently discharged as to damnify his employer, or deprive him of the benefit which he had a right to expect from the service."

Turning now to the auditor, and referring to one of the earlier cases, *in re London and General Bank* (No. 2) 1895 2 Ch. 673, a case mentioned again later on, Lindley L.J., states the duties at pp. 682 *et seq.*:—

"It is no part of an auditor's duty to give advice, either to directors or shareholders, as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans without security. It is nothing to him whether the business of a company is being conducted prudently or imprudently,

profitably or unprofitably. It is nothing to him whether dividends are properly or improperly declared, provided he discharges his own duty to the shareholders. His business is to ascertain and state the true financial position of the company at the time of the audit, and his duties are confined to that. But then comes the question: How is he to ascertain that position? The answer is: By examining the books of the company. But he does not discharge his duty by doing this without enquiry and without taking any trouble to see that the books themselves show the company's true position. He must take reasonable care to ascertain that they do so. . . . What is reasonable care in any particular case must depend upon the circumstances of that case."

In the same judgment at page 684 the Lord Justice remarked:—"It is satisfactory to find that the legal standard of duty is not too high for business purposes, and is recognised as correct by business men."

It would be impossible to discover anything in the slightest degree unreasonable in these remarks. At the same time it should be noted that reasonable care is defined in relation to the circumstances of a particular case, and in 1895 the duties of an auditor were not nearly so complex as they are today.

Take now a case decided in 1911, *Squire Cash Chemist v. Ball* (1911) 106 L.T. 197, at page 201, per Lord Alverstone C.J.: "As I have a great deal yet to refer to, I will only say that I wish to call attention to the judgment of Lord Lopes (then Lopes L.J.), at page 288 of 1896 2 Ch. (*Kingston Cotton Mills Case*), on which I notice the phrase that Sir Edward Carson used, that 'an auditor is not bound to be a detective,' also that 'he is a watchdog but not a bloodhound.' Those picturesque descriptions are rather misleading. I would prefer to say that an auditor has to take reasonable care having regard to the circumstances of the case. He might have to be a detective in some circumstances, if there are circumstances to arouse his suspicions as a reasonable man."

From this it would be fair to conclude that, in the opinion of the Chief Justice,

there are circumstances in which the clear duty of an auditor combines the roles of auditor and detective. What these circumstances may be must depend on the facts of a particular case, but in present day business an auditor has every chance of being called upon to conduct an audit, the circumstances of which will call for the skill of an auditor and detective, combined.

Coming now to 1925, in *re City Equitable Fire Insurance Company, Limited*, referred to before. This case occupies one hundred and forty pages of the law report, every page of which is well worth reading, but, for the moment, we are concerned only with the extension of the liabilities of an auditor in modern business. In this case an auditor escaped liability as a result of not personally inspecting the securities of a company held by the stock brokers of the company, solely for the reason that one of the articles of association of the company limited his liability to wilful neglect or default. Apart from the article, it is questionable whether there was not, in the circumstances, negligence on the part of the auditor sufficient to make him liable.

Pollock M.R., at pp. 503 *et seq.*, states sufficient of the facts to make the point. "It is right, and this is fully recorded in Romer J.'s judgment, to say that the audit in these three successive years, which was carried out by the auditor, was carried out with due diligence and care. It occupied something like from six to eight weeks, and in a passage of his judgment Romer J. gives a striking testimony from the evidence, to which he adds his own authority, to show that he was quite satisfied that the auditor had been both diligent and discriminating, and had endeavored to bring the very best of his abilities to bear on the problem before him. Romer J. cites a passage from the evidence of a witness who testified to the care and accuracy displayed by the auditor in the audit. The witness says this: 'As far as the figures are concerned, I think there is great accuracy right through,' and then in reply to this question: 'In fact, throughout, always putting aside these matters we have to address ourselves to, speaking generally, throughout, the greatest care

was shown and accuracy achieved?' he answered: 'Yes.' The learned Judge at the close of his judgment says that he is convinced 'that throughout the audits the auditor conducted, he honestly and carefully discharged what he conceived to be the whole of his duty to the company.' That judgment was delivered after the learned judge had had an opportunity of hearing a great number of cases cited to him, a good number of addresses from counsel, and after he had spent many days in the hearing and trial of the case. I should like myself to add that upon the facts presented to us, it appears that the auditor did discover and ask for explanations which do him credit, for it must be remembered that he had to overcome—if he was to succeed in the task which it is now suggested that he ought to have succeeded in—the cunning of the dishonest chairman, and he had to circumvent the ingenuity of the general manager, who was concerned at the same time in obtaining for himself an agreement which I should describe as a fraudulent agreement on the face of it. The auditor had, therefore, set before him a task which must be a difficult one at any time, but one about which, if he failed in it, there would only have been recorded of him that he failed to do what would have been a very signal achievement if he had succeeded."

Here it should be appreciated that the gentleman referred to above would almost certainly have been found liable for negligence with regard to the securities, had it not been for the article referred to before.

All such cases must necessarily be tried after the event, and it seems impossible that the mind can visualize the circumstances as they existed prior to the discovery of the frauds. The Courts appreciate this, and go to endless trouble in an endeavour to see the facts as they were before discovery, but the disadvantages are apparent. In this case the standard was set after the facts became known, and it is seriously contended that, in the circumstances, many a competent and honest auditor would have acted exactly in the same manner as the auditor in this case. Indeed, the proposition put by some witnesses that the certificate of any bank as

to securities held would be sufficient in all cases was rejected, and the standard raised, as appears later.

This case substantially sets the standard for the present, and while, in the judgments, the remarks of Lord Lopes in the *Kingston Cotton Mills Case* (supra), referred to by Lord Alverstone C.J. in *Squire Cash Chemist v. Ball* (supra), are approved, it is submitted that the dual roles of auditor and detective may yet have to be sustained. In any event, there is every indication of an increase in the responsibilities of an auditor commensurate with the rapid growth and increasing complexity of modern business. Further, this case establishes beyond doubt the necessity for a very strict enquiry into the terms upon which an audit is to be undertaken.

The responsibility of an auditor is, to a certain extent, shared by his clerk. Lord Alverstone C.J., in *Squire Cash Chemist v. Ball*, puts it as follows: "I further find, or rather rule, as a guidance to myself, that, with some slight exceptions, where judgment and discretion come in, the skill of the head clerk must be the same as the skill of the principal. . . of course I must be understood as not dealing with the accounts where judgment comes in as to whether a thing ought to be treated as capital or as revenue or anything of that kind. I am dealing with questions of fact."

In the same case, dealing with the question of remuneration, "I do not attach any importance to the question of the scale of remuneration. The auditor could have charged whatever was a proper amount, and, having regard to what they have done, I assume they were quite sufficiently paid."

Therefore the amount of the fee has, quite properly, no bearing on an auditor's liability, and it would appear to be very risky to attempt to cut down the cost of an audit by the employment of juniors on any important work.

This brings us to a purely practical question. Many auditors are asked to conduct an audit for a small fee, a fee that hardly covers the actual labour involved. The auditor is fully aware that the system of accounts in use is not efficient, and equally aware that, for the time

being, the person requiring the audit cannot afford to reorganize. The auditor must face the facts and either refuse to conduct the audit, or undertake it under conditions which properly limit his duties. The former proposition is as unfair to both the auditor and his client as the alternative is fair. There is nothing in the world to prevent an auditor from limiting his liability at common law, and in many cases he would be very foolish not to do so.

Here we may consider cases dealing with what may be termed the preliminaries to an audit, keeping in mind the proposition that the standard has been progressively raised. The preliminaries may, it is submitted, be set out broadly as under:—

Ascertaining scope and terms of audit by—

1. Perusing documents governing the extent of the audit and fixing the duties and responsibilities of the auditor.
2. Examining the system of accounts in use.
3. Deciding upon the terms to be included in any agreement whereby it is proposed to fix responsibility.

Before passing to a consideration of the auditor's position under the several documents governing his appointment reference should be made to part of the judgment of Lord Alverstone C.J. in *Squire Cash Chemist v. Ball* at p. 199: "I have already said that I put the duty of the auditor, in both actions, on the same standard, and I do not agree that their duty as auditors would be less than this duty in advising a purchaser when he was buying a business."

This, it would appear, places the duties of an auditor *qua* auditor and as an accountant advising a purchaser, on the same basis.

The documents under which an auditor is appointed and acts must be perused with care. The terms of the document, apart from indicating the nature and extent of his work, may increase or limit his liability at common law, and may completely change his status. In *Leeds Estate Building and Investment Company v. Shepherd* (1887) 36 Ch. D. 787, Stirling J. at p.

802 states: "The auditor stated in his evidence that he did not during the period of his auditorship see the articles of association of the company. This statement, if true, appears to me to afford no excuse for him, for he admitted that he knew of their existence."

Thus neglect to read the articles of association or, presumably any other documents concerned with his appointment or duties, such as a private Act or Charter, is inexcusable, and ignorance of the contents of such documents equally inexcusable. Most charters or articles of association make the auditor an officer of the company, and even where this is not the case it will generally be found that the very duties of the auditor make him an officer of the company, and liable as such.

In re London and General Bank (1895) 2 Ch. 166, decides (*inter alia*) that auditors who have been appointed by a banking company in pursuance of the (English) Companies Act, 1897, S. 7, and are spoken of as officers of the company in the articles of association, are officers within the meaning of the 10th section of the (English) Companies (Winding-up) Act, 1890, and if guilty of misfeasance may be made liable in proceedings under that section. The following is extracted from the judgment of Lindley L.J., at p. 171; "I know nothing of the charges against this auditor, as the facts have not been gone into before us, but suppose that an auditor whose business it is to audit accounts and sign balance sheets knows perfectly well that the balance sheet so signed by him will be acted upon, and that if it shows profits properly divisible as dividend a dividend will be declared, and suppose that he purposely and fraudulently prepares and signs a balance sheet showing profits divisible where there are none—it appears to me that it is a distinct misfeasance within the meaning of the section, leading to, and intended to lead, to a misapplication of the assets. Such a misfeasance, I have not the slightest doubt, would be a misfeasance within the meaning of the section. Although that does not show he is an officer of the company, yet having regard to the articles of association of this company and the provisions in the Act which I have referred

to, I do not see how it can be said that as a matter of law this gentleman is not an officer of the company and cannot be liable for misfeasance. In my opinion he is an officer, and his conduct may be within the mischief contemplated by S. 10."

Again, in *in re Kingston Cotton Mill Company* (1896) 1 Ch. 6, an auditor was appointed under articles of association which, so far as they related to the audit of accounts, were in substantially the same terms as the audit clauses of Table A, and as the articles of association in *in re London and General Bank*, although it was not a joint stock banking company:—

Held, on the authority of that case, that he was an officer of the company within S. 10 of the (English) Companies (Winding-up) Act, 1890. Per Vaughan Williams J.: "In every case where an auditor of a company is appointed under articles of association which impose upon him the duty of examining the balance sheet and reporting to the members whether, in his opinion, it is a full and fair balance sheet, containing the particulars required by the articles, and properly drawn up so as to exhibit a true and correct view of the company's affairs, he is an officer of the company within S. 10 of the (English) Companies (Winding-up) Act, 1890."

In re Republic of Bolivia Exploration Syndicate, Limited (1914) 1 Ch. 139, decides (*inter alia*) that company auditors are bound to know or make themselves acquainted with their duties under the company's articles and under the company's Acts for the time being in force, and if the audited balance sheets do not show the true financial condition of the company, and damage is thereby occasioned, the onus is on the auditors to show that this damage is not the result of any breach of duty on their part.

This is probably a convenient stage at which to consider *in re City Equitable Fire Insurance Company* in more detail. The facts are that in June, 1916, a director and manager was appointed to this company, which, at the time, was carrying on the business of re-insurance of fire and marine risks, and was in a sound financial condition. Early in 1922 an order was made for the winding-up of the Company by the Court. A searching investigation

of the affairs of the company was then made, and this investigation disclosed a shortage in the funds of which the company should have been possessed of over £1,200,000. This state of affairs was in no way due to the company's trading operations as a re-insurance company. On the contrary, there was a steady and most remarkable increase in the premium income of the company, due to the capture of certain business from a foreign competitor. The collapse of the company was entirely due to the following causes:—

1. Substantial investments costing £701,739 showed a loss of close on £500,000.
2. Interests in land in Brazil costing £445,000 showed a loss of approximately £345,000.
3. The sum of £110,000 had found its way into the hands of the company's manager and was not recoverable.
4. The sum of £385,000 was due from the company's brokers, of which firm the company's manager was senior partner, and collateral security held realized under £31,000, leaving a loss of approximately £354,000, of which about £14,000 could be realized on the bankruptcy of the firm of brokers.
5. The manager had misappropriated other moneys amounting to £7,000, and either the manager or the company's brokers had loaned to some grain company without authority the sum of £9,000 and the prospects of recovering the last two sums were practically nil.

The manager, of course, was tried, convicted, and imprisoned, but the question arose as to whether the other directors and the auditors of the company had been properly discharging their duties to the company's shareholders. The Official Receiver alleged they were not, and, whilst admitting that they acted honestly throughout, claimed they had been guilty of such negligence as to render themselves liable to the company in damages. This was the question to be determined by the Court.

The case against the auditor was threefold and in respect of—

1. His misdescriptions in the balance

sheets of the debts of the brokers by including them under "Loans at call or short notice," or "Loans," and in one instance under the heading of "Cash at bank and in hand."

2. His failure to detect the fact that much larger sums were in the hands of the brokers at the date of each of the balance sheets than were so included.
3. His failure to detect and report to the shareholders the fact that a number of the company's securities, which were in the custody of the company's brokers, were being pledged by that firm to its customers.

On the first charge it was found by Romer J., and confirmed on appeal, that in the circumstances sufficient enquiries had been made and proper explanations given, and no negligence was present.

The second charge was concerned with a pretended transaction by the company's brokers setting up the purchase of Treasury Bills shortly before, and a resale of the same bills soon after the close of the financial year. The purchase and resale was definitely intended to deceive the auditor and was in fact successful. The official assignee claimed that, firstly the auditor should have detected the fraud from an examination of the books, and, secondly should have discovered it by calling for the bills and inspecting them. On the first point it was held that the auditor was not guilty of negligence simply because he failed to recollect similar transactions around the close of previous financial years, and that the magnitude of his task rendered such a proposition unreasonable. The second point made by the official assignee was dealt with as part of the third charge.

On the third charge, of having failed to deal properly with the securities, Romer J. found the auditor guilty of negligence, and this finding was confirmed on appeal. Portion of the judgment of Romer J. may here be interposed—at p. 498, "An auditor is not, in my opinion, ever justified in omitting to make personal inspection of securities that are in the custody of a person or company with whom it is not proper that they should be left, whenever such personal inspection is practicable . . . that

the brokers were at all times regarded, and reasonably regarded, by the auditors as a firm of the highest integrity and financial standing is not to the point. In my judgment, not only did the auditor commit a breach of his duty in accepting, as he did, from time to time the certificate of the company's brokers, but he also committed a breach of his duty in not either insisting upon those securities being put in proper custody, or in reporting the matter to the shareholders. This was negligence, and, but for article 150, it would be my duty so to declare and to order the auditor to make compensation for all the damages that such negligence caused to the company."

This brings us to a consideration of the conditions under which the auditor in this case was employed, more particularly with regard to article 150. This article provided (*inter alia*) that none of the directors, auditors, secretary or other officers for the time being of the company, should be answerable for the acts, receipts, neglects or defaults of the other or others of them, or for any bankers or other persons with whom any moneys or effects belonging to the company should or might be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of the company should be placed out or invested, or for any other loss, misfortune or damage which might happen in the execution of their respective offices or trusts, or in relation thereto, unless the same should happen by or through their own wilful neglect or default, respectively.

On this article, the Court of Appeal, affirming as a whole the decision of Romer J., held (*inter alia*) that the measure of an auditor's responsibility depends upon the terms of his engagement. There may be a special contract defining the duties and liabilities of the auditor. If there is, then that contract governs the question. The articles will, however, be looked at if there is no special agreement, because the auditor will presumably have taken his duties upon the terms (among others) set out in the articles. That is not to say that auditors can set aside a statutory obligation. No agreement or article of association can remove an imperative or statu-

tory duty. Section 113 (English Act) does not lay down a rigid code. The duty imposed on the auditors by it is not absolute, but depends upon the information given and the explanations furnished to them, so that there is abundant scope for discretion. Article 150 is not in conflict with the section. The onus lies upon the auditors, who would not be excused for total omission to comply with any of the requirements of the section, or for any consequences of deliberate or indifferent failure to ask for information on matters which call for further explanation.

On this decision, then, the auditor received the benefit of article 150, and while it was found that he had been guilty of negligence, he was not guilty of wilful misconduct.

If the case for the auditor has, so far, been fairly put, does it not follow that an auditor is bound in justice to himself to limit his liability where the occasion demands? Is it not obvious that an auditor faces the unknown every occasion on which he undertakes an audit of any magnitude, especially when the audit is concerned with a company with interests in other concerns, related or unrelated? Of course it may be argued that in other professions the unknown is encountered and a surgeon, for example, undertaking a delicate major operation, is faced with many complications. Admitting this, it is contended that a surgeon is in almost every case entitled to assume a certain regularity in the human frame, and, in any event, he faces no opposition from his patient once the patient is safe in the operating theatre. An auditor, however, must encounter cases where the trusted servants of his client use all their resources and ingenuity to mislead and deceive him. Obviously, there must be some limit, and it is submitted that the most reasonable limit is that fixed by the person who knows most of the circumstances, the auditor. If a client cannot agree that, in the circumstances, the limitation is reasonable, he will have to seek another auditor. At the same time, if the basis of limitation is approved by the profession generally, the client may have some difficulty in finding an auditor willing to risk his reputation in the manner required.

It is suggested that article 150, referred to before, should appear in the articles of association of every company, and that a similar provision should be included in agreements covering audits of any importance.

In the event of any doubt as to what conditions should be included in an agreement for audit, the matter should be referred to the auditor's legal advisers, so that the contract will be exactly what is required.

The necessity for this is demonstrated in some of the leading cases affecting the position of an auditor engaged on a limited audit of cash transactions.

Thomas v. Devonport Corporation (1900) 1 Q.B. 17, is concerned with a limited audit of the accounts of an urban sanitary authority, and the case went on appeal from a judgment of Phillimore J. at the trial of the action without a jury. It is interesting for the reason that many auditors are concerned with the accounts of such bodies, and also for the reason that the Court of Appeal could not agree with the view taken by Phillimore J. as to the extent of an auditor's duties in carrying out what was in effect a limited audit of the receipts and expenditure of the treasurer of the urban authority. The Court of Appeal held that the duty of an auditor of an urban sanitary authority is not confined to ascertaining whether there are vouchers for each item of the accounts submitted to him, but extends to investigating whether the payments represented by the vouchers are authorized, or are without authority, or otherwise illegal or improper: per Lord Russell C.J., at p. 21, "I do not subscribe to the doctrine that his sole duty is to see whether there are vouchers, apparently formal and regular, justifying each of the items in respect of which the authority seeks to get credit upon the accounts put before the auditor for audit. I think that is an incomplete and imperfect view of the duties of the auditors. I think an auditor is not only entitled, but justified and bound to go further than that, and by fair and reasonable examination of the vouchers to see that there are not amongst the payments so made payments which are not authorized by the duty of the authority or in

any other way illegal or improper."

This judgment applies, although the audit was strictly a limited audit, and was not an audit of the doings of the various committees, being simply an audit of the accounts of the borough treasurer as an accounting officer.

In *Fox and Son v. Morrish Grant & Co.* (1918) 35 T.L.R. 126, an auditor undertook a limited audit, and apparently failed properly to limit his functions and liability in the preliminary contract. The auditor intended that the work should be confined to checking the postings and additions in the plaintiff's books, taking out trading and profit and loss accounts, preparing the balance sheet therefrom, and closing the private ledger in accordance therewith. Misappropriation by a clerk had taken place, and in an action against the auditor it was held that where an accountant is retained to check books of account, and where there is no arrangement that he need not verify the correctness of the cash and bank balances stated in the books, he commits a breach of duty if he checks the books without such verification and without informing his clients of the omission. In delivering his judgment Lawrence J. stated that liability turned on what the auditor was employed to do, it was understood that it was not to be a full audit, but in the circumstances his Honour found a breach of duty and held the auditor liable.

Obviously no auditor would have neglected to verify cash and bank in the ordinary course of events, and it is clear that the auditor in this case was quite satisfied that he had excluded this duty in the preliminary contract. Had he made certain of the wording of his contract the client would no doubt have been quite satisfied, and the resulting claim for damages could never have arisen.

The cash transactions in *in re City Equitable Fire Insurance Company* have already been discussed, and while there are other cases equally in point, it is suggested that it has been demonstrated that an auditor in undertaking a limited audit must be very sure of the terms of his contract.

Throughout the audit of cash, wages, trading transaction and final accounts the

auditor is guided by decisions which have been accepted by all concerned as eminently fair and reasonable. Here, the auditor is on firm ground and can accept far greater responsibility. It may not be out of place, however, to consider some of the leading cases dealing with the final document, the balance sheet. Some of these cases arise out of matters which have to be considered before the balance sheet, but in the main they are concerned with items appearing on the balance sheet and belonging properly to a discussion of that document. Again the cases are progressive.

Leeds Estate Building and Investment Company v. Shepherd 36 Ch. D. 787, is interesting as being among the earlier cases in which an auditor's duties to shareholders were discussed. These duties are now well recognized, and it is not proposed to repeat them here, but it may be of interest to note the defences relied on by the auditor as giving some idea of what an auditor in 1887 regarded as his duty to the company. Had it not been a case of neglect, the defence may have carried more weight, but it is nevertheless interesting.

The facts shortly were that the balance sheets of the company were prepared by the manager, and were quite delusive, over-estimating assets of the company, based on accounts which were practically non-existent, and framed with the object of showing a profit available for dividend.

The defence is stated at p. 795 as follows:—

"The auditor was a mere servant of the directors, employed at an annual fee, which first was only five guineas, and was never more than twelve pounds, and was given for work of a particular character. It was not his duty to keep the accounts and it was no part of the office of an auditor 'to enquire into the validity of any transaction appearing in the accounts of the company' (*Spackman v. Evans*, L.R. 3, H.L. 17). The auditor's duty was to see that the balance sheet represented, and was the result of, what appeared in the books of the company; and his certificate goes no further than that. The auditor is a machine for this purpose only, and a true balance sheet from his point of view is one which shows correctly what appears

in the company's books. When he finds in the books that debts are due to the company, all he can do is ask the directors and managers whether they are good debts, and, if he is told they are, he is justified in making his certificate. He cannot go behind the books of the company. The inconvenience of requiring more from an auditor is obvious.

"No fraud can be proved against the auditor. There was no negligence on his part. He was simply deceived. Again the damage is too remote. It was no part of his duty to show on what kind of estimate the dividends ought to be declared, and the improper payment of dividends was not the natural result of his acts.

"Having regard to the amount of the auditor's remuneration, it would be one of the most alarming and ill-paid of occupations if he were to be liable for the remote consequences of the admission of particular items appearing, as he is correctly told, in the company's books. The declaration of the dividends was not the result of anything the auditor did, but was in fact, in the words of article 79 of the articles of association, the directors' 'estimate' of the result of the account, and of what ought to be done, having regard to the state of the books. At all events, the auditor can only be liable for the period not covered by the Statute of Limitations, and this being so, the court should dismiss the earlier balance sheets from his mind."

With the exception of the last sentence, no one now would seriously put up such a defence, but is it not a record of progress from 1887 to date? It is submitted that the decision in this case set a standard which has been lived up to and actually raised, not by the judiciary alone, but by the profession as a whole, for the judiciary adopt the degree of skill and application exhibited by the profession, and as higher duties and responsibilities are taken by auditors unto themselves, so will the standard be raised.

The next case is in *in re London and General Bank* (1895) 2 Ch. 673. Here an auditor, in completing an audit, presented a confidential report to the directors, calling their attention to the securities on which the capital of the company was invested, and the difficulty of realising them,

but in his report to the shareholders merely stated that the value of the assets was dependent on realisation, and in the result the shareholders were deceived as to the condition of the company, and a dividend was declared out of capital and not out of income. It was held (*inter alia*) that the auditors had been guilty of a misfeasance under S. 10 of the (English) Companies (Winding-up) Act, 1890, and were liable to make good the amount of the dividend paid.

The breach of duty here was the neglect to report to the shareholders. A definite promise by the chairman that he would mention the auditor's report in his speech did not absolve the auditor from liability. The defense again strove unsuccessfully to stem the rising tide of responsibility by indicating that the very form of the auditor's certificate, to the effect that the value of the assets "was dependent on realisation," was most unusual, and constituted a warning to the shareholders. It was decided, however, that except in very special cases an auditor's duty is to place before the shareholders the necessary information as to the true financial position of the company, and not merely to indicate the means of acquiring it.

A study of the *Royal Mail Case* indicates that, today, the actual wording of an auditor's certificate is a matter that might more properly be left to the profession than to the general public as also the interpretation thereof.

In Re Kingston Cotton Mill Company (No. 2) (1896) 1 Ch. 331, goes a little further than *in re London and General Bank*. In this case the value of stock-in-trade was greatly over-estimated and deliberately false certificates were given as to the value of the stock-in-trade by the manager. The false valuation made profits available for dividend where, in fact, no profits were available. The dividend was paid and it was sought to make the auditor liable. It was held that while ordinary directors of a company are entitled to rely on certificates of its manager as to the value of its stock-in-trade, auditors (although it is no part of their duty to take stock) are not entitled to rely on the manager's certificate if an ordinary careful examination of the books ought to have

made them suspect the truth of it. Per Vaughan Williams J. at pp. 349 and 350, "... with regard to the stock-in-trade their case is very different from that of the directors, for they were not entitled to rely upon the manager's certificate if an ordinary careful examination of the books ought to have made them suspect that statement. Now, it is plain to me that if the auditors had added to the stock-in-trade at the beginning of any year the purchases of raw materials in that year, and had deducted therefrom the sales, they must have seen that the statement of the stock-in-trade at the end of the year was so remarkable as to call for explanation, and they called for none."

These remarks must be read in the light of *in re City Equitable Fire Insurance Company*, and it is quite possible that in certain circumstances an auditor could not be expected to check a manager's certificate as to stock-in-trade by any comparison of figures.

The question of stock was again considered in *Henry Squire Cash Chemist v. Ball Baker & Company*, mentioned before, and on appeal Cozens-Hardy M.R. stated that although it is not the duty of accountants to take stock in auditing the accounts of a business, they may well call for explanations of particular items in the stock sheets. In this case the plaintiff actually averred that the increase in stock ought to have aroused the auditor's suspicions, but Lord Alverstone considered that if auditors called the attention of directors to a fact and the directors with knowledge of that fact made no comment and gave no instructions, the auditors could not be expected to do more. It must be remembered that this was an investigation of accounts undertaken at the request of a prospective investor, and not an ordinary audit undertaken on behalf of shareholders.

The next case, *in re Republic of Bolivia Exploration Syndicate, Limited* (1914) 1 Ch. 139, confirms that auditors are bound to know or make themselves acquainted with their duties under the company's articles and under the Companies Acts for the time being in force, and where Table A regulates a company in default of articles this knowledge must extend to Table A. The case also decides that auditors are

prima facie responsible for *ultra vires* payments made on the faith of their balance sheets, but that in certain circumstances auditors will be excused for not drawing attention to *ultra vires payments*. The circumstances are referred to in the judgment of Astbury J., extracted hereunder. The facts were that certain commissions had been paid for placing shares, such payments having been authorised by the company's memorandum and a board resolution, and also profit costs had been paid to a solicitor director in respect to costs of incorporation. The auditors passed these payments in their balance sheet without discovering, appreciating, and drawing attention to the fact that there was no power under Table A to authorize these payments. Astbury J., at page 175, "First, as to the sums improperly paid for commission for obtaining subscriptions for shares, I am not satisfied that the respondents failed in their duty to the company in not knowing or ascertaining that the payments were in the circumstances improper in law before they passed them in the first audited balance sheet, especially having regard to the fact that the balance sheet stated in terms for what the sums in question were paid. After they learned at the shareholders' meeting of December 14, 1908, that the legality of these payments was questioned, the meeting was adjourned for the purpose, *inter alia*, of enquiries being made into the matter, and the balance sheet and accounts were subsequently approved by the shareholders at the adjourned meeting, and I do not think that they ought to be held guilty of breach of duty for passing the same entry as to these sums in the second audited balance sheet. . . . Secondly, as to the sum received by the solicitor director, for profit costs, the position of the respondents seems more doubtful. The auditor has admitted in the box that he made no enquiries beyond asking for and being shown the receipts for payment, but having regard to the fact that as to the payment of the two hundred and fifty pounds, the minutes stated it to be an agreed sum for the costs of incorporation, and as to both the sums claimed in respect of profit costs that the solicitor director was not appointed a director until three months after incorporation, and to

the question as to how far the auditors were bound to ascertain that in this company no authorization existed for directors to contract with the company and to appreciate that the profit costs of the solicitor's bill were consequently unauthorized in law, I do not think that I ought to make any order for payment of these sums by the auditors, although I am far from satisfied with the way in which this part of their audit was conducted."

Coming again to *in re Equitable Fire Insurance Company, Limited*, consider Pollock M.R. at p. 454: "I do not wish in any way by anything that I say to discharge the auditors from their duties as laid down in the *Kingston Cotton Mills Case*, far less do I wish to discharge them from their duty of seeing that securities are held, and accepting the certificate that they are so held only from a respectable, trustworthy and responsible person, be that from a bank or an individual; but in applying my mind to the facts of this case, I am not content to say that, simply because a certificate was accepted otherwise than from a bank, therefore there was necessarily so grave a dereliction of duty as to make the auditors responsible. In my opinion, it is for the auditor to use his discretion and his judgment, and his discrimination as to whom he shall trust; indeed, that is the right way to put a greater responsibility on the auditors.

"If you merely discharge him by saying that he accepted the certificate of a bank because it was a bank you might lighten his responsibility. In my view, he must take a certificate from a person who is in the habit of dealing with and holding securities, and whom he, on reasonable grounds, believes to be, in the exercise of his judgment, a trustworthy person to give such a certificate. Therefore I by no means derogate from the responsibility of the auditor, I rather throw a greater burden upon him in respect of which the test of common sense and business habits can be applied, rather than impose on him a rigid rule which is not based on any principle either of business or common sense."

Could any statement be more clear? Could the lesson be thrust home with greater emphasis? The responsibility of

(Continued on page 569)

Seen In Published Financial Statements

by W. T. SUNLEY, C.P.A., Chicago, Illinois

RESERVATIONS OF CAPITAL STOCK

RESERVATIONS of capital stock are of two distinct natures. Some reservations represent the setting aside of unissued (or treasury) stock to be issued for a value not yet received or recorded. Other reservations reflect the necessity for later issuance of certificates to cover a value already received.

An example of the first type is the reservation of stock for later purchase by employees, whether or not under a plan already definitely determined. The other type is represented by subscriptions or notes taken and set up on the books of account as an asset.

The distinction between the two types is essential to a proper understanding of the methods employed in displaying the reservations. In the first case the recording of the reservations is a memorandum matter, not affecting the total of either side of the balance sheet. In the second case an asset has been set up, and there must be an equal addition to the liability side.

Illustrations of the display of reservations of the first type—i.e., reservations of unissued (or treasury) stock to be issued for a value not yet received or recorded—will be presented first.

For sales to Employees and Others.—The reservation of stock for sales to employees, as mentioned above, is disclosed in the balance sheet of General Printing Ink Corporation:

Common stock—Without par value, but of a declared value of \$1.00 per share (authorized, 400,000 shares; reserved unissued for future sales to officers and employees, 34,520 shares; issued 185,489 shares, less 1,499 shares in treasury) \$183,990.00

At \$1.00 per share the money amount shown in the 185,489 shares issued less the 1,499 shares in the treasury; the reference to 34,520 shares "reserved unissued for fu-

ture sales" is simply a memorandum which has not affected the totals.

National Steel Corporation shows a similar reservation as a separate item, which also is, of course, memorandum only and does not affect the total shares outstanding:

Capital stock—par value \$25.00 a share:

Authorized 3,000,000 shares

Reserved for existing options to officers and employees at \$40.00 per share, 46,000 shares.

Recognizing the memorandum nature of the information, The Lambert Company shows the reservation in a footnote:

On December 31, 1934, as authorized by the stockholders on April 15, 1929, and April 15, 1931, 65,000 shares of the Capital Stock of The Lambert Company were under option, expiring December 31, 1935, to officers and employees of the Corporation and its subsidiaries at \$85.00 per share, subject to adjustment in the event of the issuance by the Corporation of Capital Stock at less than such price.

The Kendall Company conveys the information parenthetically:

COMMON CAPITAL STOCK:

Authorized—452,500 shares of no

par value

Issued and outstanding—397,442

shares \$1,728,575.70
(3,009 share subscribed by officer)

The caption used by Industrial Rayon Corporation is:

CAPITAL STOCK

Authorized 1,200,000 shares without par value (100,000 shares reserved for options, expiring May 1, 1937, granted to Corporation officials at \$30.00 a share).

The Grand Union Company mentions options to purchase in a note at the end of the capital stock section, within the body of the balance sheet:

Note: 23,000 shares of common stock are under option at \$2.50 per share (1,000 shares to May 1, 1935, 4,000 shares to May 31, 1935, and 4,500 shares for each of the four years ending May 31, 1936 to 1939) out of a total of 46,450 shares reserved for issue at not less than \$2.50 per share.

Sometimes it is shown that treasury stock is reserved for such purposes. An example is found in the balance sheet of

The Murray Corporation of America:

COMMON STOCK—\$10.00 par value

Authorized	\$10,000,000.00	
Less: Unissued	\$1,910,880.00	
In treasury, including 39,602 shares reserved for officers' and employees' stock purchase agreements ..	\$401,810.00	\$2,312,690.00 \$7,687,310.00

Stock Rights.—"It is a general rule of law that, whenever the capital stock of the corporation is increased, each of the present stockholders has the right, subject to certain qualifications, to an opportunity to subscribe for or purchase shares of the new stock in the proportion of the amount of stock already held by him.

"From this has grown up the issuance of certificates or warrants to stockholders, giving them the right to subscribe to a proportionate number of shares whenever a new issue of stock is to be made. Such warrants are called 'stock rights.' They are usually transferable, and in the case of listed stocks are handled on the exchanges in practically the same manner as the stocks themselves. They are quoted and bought and sold until the time for the exercise of the right or option to subscribe has expired.

"Whether or not the issuance of such rights should be entered on the books of account is debatable. After all, they are only options to subscribe and do not become contracts until the option is exercised by the act of subscribing. They are nothing more than the tender of an offer by the corporation, which does not become an agreement until accepted by the holder of the option."¹

Sometimes securities, such as preferred stocks and bonds, are issued with attached warrants which entitle the holder to subscribe for common stock. In some such case the provisions of the indenture require that the common stock needed for redeeming these warrants should be placed in the hands of a trustee, but where the nature of the transaction does not require such immediate issuance of the stock, the reservation may be indicated in the usual manner.

The balance sheet of The Baldwin Locomotive Works reveals such a situation:

Common Stock, no par:	
Authorized, 2,000,000 shares	
Issued, 1,148,060 shares	\$11,014,300.00
(174,940 shares are held for issuance at \$5.00 per share upon exercise of warrants attached to consolidated mortgage bonds)	

¹Sunley and Pinkerton: "Corporation Accounting," pp. 87-88. Cf. 14 C. J., §523.

Niagara Hudson Power Corporation sets forth similar information by inserting the following note in the capital stock section of the balance sheet:

A and B stock option warrants are outstanding in the hands of the public entitling the holders thereof to purchase respectively 2,783,697 $\frac{7}{8}$ shares of common stock at \$105 per share to October 1, 1944 and 496,625 $\frac{3}{4}$ shares of common stock at \$50 for 1 $\frac{1}{2}$ shares at any time without limit.

The Commonwealth & Southern Corporation similarly sets out the facts in a paragraph within the capital stock section of the balance sheet:

Option warrants entitling holders thereof to purchase a like number of shares of common stock at \$30.00 per share at any time without limit—

Issued and outstanding 17,588,956-373/1200 warrants

United Gas Corporation displays warrants to purchase treasury stock:

CAPITAL STOCK:

Common (\$1.00 par value), each share entitled to one vote; authorized, 20,000,000 shares; issued, 7,823,117 shares; in treasury, 4,158 shares (of which 3,015 shares are reserved for exercise of Common Stock Purchase Warrants); outstanding 7,818,959 shares \$7,818,959.00

Under Miscellaneous Options to Purchase.—The necessity of having stock available to fulfill options which have been granted is given effect to in the balance sheet of Hayes Body Corporation:

Capital stock (authorized, 500,000 shares of \$2.00 each; reserved for option agreements, 27,000 shares; issued, 343,233 shares) \$686,466.00

For Conversion of Other Securities.—Preferred stock and bonds are often issued with the privilege of converting them into common stock at a later date. In such case the value which is to be received by the corporation is the freedom to be had from an existing liability, i. e., the other security.

The balance sheet of Gillette Safety Razor Company shows a reservation of common stock for such a purpose:

Common stock:

Authorized:
2,801,269 Shares, without par value, of which 342,390 Shares are Reserved for the Conversion of Debentures and Preference Stock

The Wayne Pump Company also pre-

sents an illustration:

COMMON CAPITAL STOCK
OF THE WAYNE PUMP
COMPANY, THE PARENT
COMPANY — AUTHORIZED
291,709 SHARES OF \$1.00
EACH: IN PROCESS OF
BEING ISSUED, 114,808 $\frac{3}{4}$
SHARES (176,900 shares re-
served for conversion of bonds) \$114,808.60

The Texas Corporation shows:

Capital Stock, Par Value \$25.00—

Authorized 14,000,000 Shares
of which 900,000 Shares are
Reserved for Conversion of
5 Per Cent Convertible Sink-
ing Fund Debentures of The
Texas Corporation.

Issued, 9,851,243 Shares \$246,281,075.00

Hearst Consolidated Publications, Inc.,
mention a reservation of preferred stock
to retire obligations of subsidiaries. The
caption is:

CLASS A 7% CUMULATIVE PARTICI-
PATING CAPITAL STOCK

(authorized, 4,000,000 shares of \$25.00 each;
2,000 shares reserved for retirement of bonds
and debentures of subsidiaries).

The Grand Union Company shows:

Common stock, par value \$1 per
share:

Authorized 750,000 shares (of
which 239,325 shares are re-
served for conversion privilege
attaching to preferred stock).

Issued and outstanding 286,367
shares \$286,367.00

To the same effect is the showing of
The American Metal Company, Limited:

Capital Stock:

Common stock, no par value,
1,218,185 $\frac{1}{3}$ shares (author-
ized 2,000,000 shares of
which 102,661 $\frac{1}{2}$ shares re-
served for present conversion
privileges of preferred
stock) \$37,965,520.00

New England Public Service Company
mentions the reservation as an exclusion
from the amount issued instead of in con-
nection with the amount authorized:

Capital Stock:

Preferred, Cumulative (Entitled
on Dissolution to \$100.00 per
share)

Authorized — 200,000 Shares
without Par Value

Issued and Outstanding:

\$6.00 Dividend Series—
100,968 Shares \$9,369,056.00
(Excluding 8,837 Shares re-

served for conversion of a
like number of \$6.00 Con-
vertible Preferred Shares)

G. R. Kinney Co., Inc., shows the reser-
vation of an issue in which there are no
outstanding shares:

Capital Stock:

8% Cumulative Preferred:

Authorized, 15,453 shares of \$100.00
each (8,976 shares reserved for con-
version of Gold Notes):

None Outstanding \$—

Graham-Paige Motors Corporation
shows reservations for two purposes:

Capital Stock:

Common:

Authorized—2,500,000 shares
of \$1.00 each (79,692 shares
reserved for exchange of
preferred stock and 44,000
shares for sale to em-
ployees)

Outstanding—2,371,773

shares \$2,371,773.00

Somewhat similarly, Chrysler Corpora-
tion shows two reservations, one of which
is of treasury stock:

CAPITAL STOCK — PAR VALUE \$5.00 A
SHARE

Authorized \$30,000,000.00

Less: Unissued
1,515,624 shares
(of which 50,-
853 are reserved
for conversion
of 6% Deben-
tures of Dodge
Brothers, Inc.) \$7,578,120.00

In treasury 138,-
588 shares (of
which 60,000 are
reserved for pur-
poses of the
Management
Trust plan) .. \$692,940.00 \$8,271,060.00

Outstanding 4,-
345,788 shares.. \$21,728,940.00

Reservations for Bonuses, Etc.—Capital
stock is sometimes reserved to provide for
agreements by which managers may be
paid bonuses in the capital stock of the
corporation. Some authorities consider
that in any such case it is desirable to
indicate in the accounts that such shares
of stock are not free for disposition, par-
ticularly where the right of the prospec-
tive owner is a matter of contractual
agreement between him and the corpora-
tion. An example of such a condition is
presented when the company has entered

into a five-year agreement with its manager, to the effect that, in addition to his regular salary, he is to receive, in each year in which the profit amounts to \$200,000 or more, a bonus of \$50,000 payable in capital stock of the corporation.

The reservation, if the contract is on an annual basis, will be decreased each year. If the bonus is earned, stock will (generally) be issued in the agreed amount. If it is not earned the proper course is to reverse, to the proportionate extent, the book entry by which the reservation was set up.

There are many accountants, however, who dispute the necessity for showing on the balance sheet a reservation of stock for such a purpose, saying that such a display is no more logical than a display of the amount of cash which will be required to meet the regular salary contracted for. When it is pointed out that there is a different situation in respect to stock commitments in that there is a legal limit on the issuance of shares and that it is well to show the extent to which that limit is being approached, they reply that it is almost always certain that additional authorizations could be obtained.

"In respect to employees' bonuses, however, it would seem more desirable to have the stock already in reserve, so that there may be no difficulty in procuring the necessary shares. There are cases, however, where it is practically impossible to do this, since the number of shares which may be needed is not always known. For example, if an agreement is made to pay the manager of a business a stock bonus equivalent to a certain percentage of the profits, it is not possible to know in advance how many shares will be needed."²

Reservations for Value Already Received.—When value has already been received and recorded on the books, the reservation has more than a memorandum character and constitutes an increase in the total of the liability side of the balance sheet to balance the increase in assets.

In some cases the value received and recorded which requires the classification of the reservation in this group is the freeing of the corporation from a liability. An example of such a reservation is the issuance of scrip for the fractional-share parts of stock dividends. The debit in

such cases is to whatever account is debited in the issuance of the full shares.

Reservations of this type are usually shown as additions in the capital stock section, but when there is a strong probability that much of the reservation will not actually be issued they are sometimes shown in the surplus section. This is especially true of reservations of stock to replace dividends scrip, which must usually be availed of and converted within a specified period, much of it being later added back to the corporate surplus because of failure by the holders to make such conversion.

Reservations of this type are always a part of the corporate net worth, and should never be so shown as to present the appearance of an outside liability.

Fractional Shares.—The issuance of fractional shares of stock, as distinguished from scrip convertible into stock, is not a reservation, because such shares are stock and have full voting and dividend rights. Such fractional shares may legally be issued in most states, but

"as a rule the practice is undesirable. Apart from the complexity of the records involved, troublesome questions arise as to the legal right of stockholders. The fractional interests in shares that do arise between stockholders—as in the settlement of an estate—should be adjusted by the parties themselves according to the conditions so that each one shall have full shares.

"Fractional interests frequently arise, however, in the corporate operation and demand recognition and adjustment. For instance, where stocks dividends are declared, fractional interests in shares are common. In such cases scrip or warrants are usually issued for the fractional interests, and these may either be cashed on a specified basis, or accepted as part payment for full shares, the balance being paid in cash, or they may be assembled until the aggregate value is such as to entitle the holder to one or more full shares."³

General Electric Company shows fractional shares issued:

Common stock (authorized 29,-	
600,000 shares no par value;	
issued \$28,845,927	36/100
shares)	\$180,287,046.00

For Conversion of Scrip.—While scrip, as distinguished from fractional shares, is not stock, it gives its legal possessor a right to have stock issued, ordinarily only

²Sunley and Pinkerton: op. cit., p. 87.

³Conyngton, Bennett, and Conyngton: "Corporation Procedure," p. 348.

in whole shares.

Scrip ordinarily is not registered by the stock registrar and transfer agent, but when it is it may be included in the balance sheet as part of the issued stock. Sometimes this method is followed when the scrip is not registered. It may be that the fractional shares indicated in the illustration from the report of General Electric Company, cited above, are represented by scrip.

Childs Company adds the scrip to the amount of issued stock:

CAPITAL STOCK:

Common (No Par Value)
Authorized 750,000 Shares
(Issued 362,612.45 Shares Including
201.45 shares of Fractional
Scrip) Less 37,918 Shares in
Treasury \$324,694.45

Kennecott Copper Corporation shows in the description of its capital stock:

Issued 10,768,582 shares, and scrip for 1,838-427/520 shares.

Federal Water Service Corporation carries one of its issues as follows:

Class A cumulative—

Authorized 1,000,000 shares
Outstanding, including scrip,
569,515-22.78/50 shares \$13,685,244.89

Lone Star Gas Corporation indicates the face value of the scrip:

CAPITAL STOCK:

Lone Star Gas Corporation:
Convertible, 6%, preference
shares (authorized, 100,000
shares of \$100.00 each; issued,
69,131 shares, and \$64,-
286.24 in scrip; in treasury,
\$540,636.08) \$6,436,750.16

Electric Bond and Share Company includes the scrip with the common stock, the caption being:

Common Stock and Scrip (\$5 Par Value)

American Power & Light Company also specifies that the number of issued shares includes an indicated amount of scrip:

CAPITAL STOCK (no par value):

Represented by:
\$6 Preferred, cumulative
(entitled upon liquidation
to \$100 a share); pari
passu, with \$5 Preferred;
authorized, 1,000,000
shares; issued and out-
standing, 793,581-2/10
shares, inclusive of 40-
2/10 shares of scrip,
\$5 Preferred, cumulative } \$214,645,636.65

(entitled upon liquida-
tion to \$100 a share);
pari passu with \$6 Pre-
ferred; authorized, 2,-
200,000 shares; issued
and outstanding, 978,444
shares,
Common; authorized, 4,-
000,000 shares; issued,
3,013,812-27/50 shares,
inclusive of 3,307-27/50
shares of scrip,

Continental Oil Company seems to have both fractional shares and scrip:

CAPITAL STOCK:

Authorized — 6,-
000,000 shares of
a par value of
\$5 each \$30,000,000.00

Issued and Out-
standing — 4,-
738,593.3 shares
(Including 213.95
shares repre-
sented by Scrip)
of which 55,870-
872 shares are
held in Treasury
and carried at no
value \$23,692,966.50

Ordinarily, however, a separate caption in the capital stock section covers the scrip. This is probably to be preferred where the scrip is not registered, as generally a considerable part of that which is issued is never assembled into full shares and used.

Life Savers Corporation shows:

Capital stock:

Authorized—350,140 shares of \$5
par value each
Issued and outstanding—348,598
shares \$1,742,990.00
To be issued for fractional shares
—236-39/40 shares 1,184.88

The display by The American Rolling Mill Company is similar:

CAPITAL STOCK:

Common, authorized, 2,500,000
shares of \$25.00 each; held
pending possible conversions
of 5% notes, 533,280 shares;
outstanding:
1,709,406 full shares \$42,735,150.00
1,370-7/20 shares in fractional
scrip 34,258.75

In the same manner, P. Lorillard Company shows the scrip as a separate item, giving in the descriptive caption the reason for its issuance:

Dividend Scrip \$5,528.90

The report of Commercial Solvents

Corporation brings out the fact that the scrip is "equivalent to" but is not stock:

COMMON STOCK—NO PAR VALUE

Authorized 3,000,000 shares
Unissued 363,958 shares

Outstanding ... 2,636,042 shares \$6,591,554.65

Outstanding Scrip

Equivalent to 2,136-4/50 shares 4,860.81

Texas Pacific Coal and Oil Company shows:

CAPITAL STOCK (authorized, 1,000,000 shares of \$10.00 each; issued, or issuable in exchange for scrip, dividend warrants, and subscription receipts, 932,403.125 shares; in treasury, 44,166.55 shares; outstanding, 888,236.575 shares) \$8,882,365.75

The warrants mentioned just above differ from warrants to purchase. In the case of dividend warrants no asset value is to accrue to the company. Subscription receipts represent payments already made. The total of all these items is therefore included in issued stock.

American Light & Traction Company also displays "fractional warrants," but as a separate item:

CAPITAL STOCK

Preferred (par value \$25.00 per share) \$13,408,100.00

Common (par value \$25.00 per share) \$69,184,775.00

Common stock fractional warrants 16,498.50 69,201,273.50

Total \$82,609,373.50

Commonwealth Edison Company shows the scrip as a separate item under the Capital Stock heading:

Scrip outstanding \$70,384.40

As indicated above, most scrip specifies an expiration date, after which it is valueless. In such cases the scrip is seldom registered by the registrar and transfer agent. The use of an expiration date is considered advantageous, as it regularly clears the books of fractional shares. A 10%, a 33⅓%, and a 25% stock dividend, with less-than-whole shares in scrip, would otherwise result in very unsatisfactory decimals. For example, the holder of one share entitled to the above dividends would have 0.68⅓ shares, or 41/60 shares, in scrip. Engineers Public Service Com-

pany shows such an expiration date:

Preferred Stock Scrip (Expires April 1, 1935) \$696.50

To Replace Stock of Predecessor Company.—When a new corporation has taken over an old, issuing its own stock in payment therefor, a long period sometimes elapses before all the stock of the predecessor can be gotten in for cancellation and replacement by new stock. During this period the successor must always be prepared to issue its stock as the old comes in. Electric Power & Light Corporation indicates such a reservation:

CAPITAL STOCK (no par value):

Common, authorized 4,000,000 shares; issued (including 560 shares issuable in exchange for stock of predecessor company), 3,412,633 shares.

As explained, the stock in the above case is treated as issued. It is, in fact, outstanding although the certificates have not been issued. (Stock and stock certificates are not synonymous, and stock is in the eye of the law often issued when the certificates have not been written.) The company has received value, and there is a definite liability for the issuance of the certificate. The value received has been in the property taken over, and the necessary contra credit is to a capital stock account. But, although there is an obligation to issue stock, that fact should not be recorded among the liabilities, for it is a part of net worth, a participation by a stockholder.

Life Savers Corporation shows as the last item in its capital stock section (see earlier in this article for display of remainder):

To be issued for capital stock of Drug

Incorporated not presented for exchange—1,305-1/40 shares \$6,525.12

The Midvale Company shows the reservation as a footnote to Capital Stock Authorized and Issued:

Includes 307.8 shares held for exchange on demand for outstanding scrip; certificates and 87.2 shares held for exchange on demand for outstanding shares of Midvale Steel & Ordnance Company—predecessor corporation.

Monsanto Chemical Company shows:

CAPITAL STOCK:

Authorized 1,250,000 Shares of \$10.00 Each;

*Unusual form.

Outstanding, 864,000 Shares, Including 1,273 Shares held for Exchange of Stock of Predecessor Company \$8,640,000.00

Similarly, Standard Brands Incorporated displays:

CAPITAL STOCK:

Common—Without Par Value—Authorized, 20,000,000 shares; issued, 12,645,380 shares at stated value of \$2.00 per share (including 5.20 shares reserved for unexchanged common stocks of companies acquired) \$25,290,760.00

For Replacement of Temporary Certificates or Former Issues.—Under ordinary circumstances no mention need be made of shares reserved for the replacement of temporary or interim certificates. In fact, the very expression is inaccurate, for such new shares are ordinarily already truly issued even if the permanent certificates are not. Perhaps for a special reason, however, Minneapolis-Honeywell Regulator Company shows:

CAPITAL STOCK:

Series A 6% cumulative preferred (authorized, 100,000 shares of \$100.00 par value each):

Issued 24,827 shares

*Less in treasury 1,554 shares

Remainder ———

Outstanding .. 23,273 shares \$2,327,300.00

Similarly, Industrial Rayon Corporation shows:

CAPITAL STOCK:

Authorized 1,200,000 shares without par value

Issued \$598,069-1/5 shares

Reserved for exchange for shares of stock of former issues.. 1,930-4/5 shares

TOTAL ..600,000 shares

Stated capital \$8,000,000.00

For Stock Subscriptions and Sales Contracts.—When stock is simply reserved for persons who have been or are to be given a right to subscribe thereto, the balance-sheet note constitutes simply a mention of that reservation, there being no increase in capital until the right is availed

*Exclusive of shares held against outstanding interim certificates which are treated as outstanding shares.

of. When, however, an asset in the form of a subscription or a contract to purchase has been received, that asset will be shown in the balance sheet and the offsetting credit will constitute an addition to net worth. Public Service Company of Northern Illinois furnishes an example of the method of display:

Capital Stock (see accompanying schedule):

Outstanding—

Preferred \$16,018,300.00

Common 37,590,621.90

Subscribed but unissued—

Common 290,880.00 \$53,899,801.90

Libbey-Owens-Ford Glass Company includes the subscribed stock in one money-amount with the full-paid:

COMMON STOCK—WITHOUT PAR VALUE

3,500,000 shares authorized under the laws of the State of Ohio; 2,554,253 shares issued including 90,247 shares subscribed under stock plan; 20,819 shares reserved for employees under stock plan.

Stated capital \$15,964,081.25

Consolidated Gas Electric Light & Power Company of Baltimore does not combine the subscribed stock with the issued stock:

Capital Stock (Issues listed on page 22) \$61,845,612.58

Capital Stock Subscribed (Issue listed on page 22)..... 1,000.00

Commonwealth Edison Company shows as an item in the Capital Stock total:

Stock total:

Subscribed but unissued and/or undelivered—7,069 shares \$706,900.00

A DREAMER

"What is a debtor, pa?"

"A man who owes money."

"And what's a creditor?"

"The man who thinks he's going to get it."

A committee is an organization that takes a week to do what a good man could do in an hour.

"A mind once cultivated will not be fallow for half an hour."

—Bulwer.

Accounting For Bond Discount And Expense Applicable To Refunded Issues

by WILLIAM M. SHANAHAN, C.P.A., Los Angeles, California

THE treatment to be accorded unamortized bond discount and expense applicable to issues refunded will be presented to many accountants this year as a result of the refunding operations now in progress throughout the country. There are three recognized ways of treating this item, (1) to write off the balance in the account by a charge to earned surplus, (2) to continue to amortize the balance in the account over the original or stated life of the issue, and (3) to combine the unamortized discount and expense on the issue refunded with the financing costs of the new issue and amortize this amount over the stated life of the new issue. None of these methods appeals to the practical business man, principally because they result in a misstatement of net income.

Discount and expenses incurred in connection with the issuance of bonds is a cost of money or financing and should be amortized over the life of the issues either on the straight-line or effective-rate method. When an issue is refunded by securities of a lower interest rate the unamortized discount and expense applicable to the refunded issue becomes a burden which should be absorbed in operations before any reduction is made in the cost of money or financing. The saving in interest resulting from the issuance of new securities should be applied in extinguishment of the unabsorbed burden or financing costs applicable to the issue refunded. This declaration is based upon the sound logic that there is no actual saving or benefit accruing to the corporation until the financial burden applicable to a refunded issue has been absorbed.

An illustration of the method of determining the amount of the financial burden which should be extinguished each year is shown in the following:

Annual saving in interest as a result of refunding \$10,000,000 face value of 6% bonds with a like amount of 4% bonds.....	\$200,000.00
Annual charge for amortization of bond discount and expense based upon the original or stated life of the issue refunded	65,000.00
Total	\$265,000.00
Annual charge for amortization on the new issue.....	30,000.00
Amount which should be applied in extinguishment of the unabsorbed financial burden applicable to the refunded issue	\$235,000.00

Under the plan outlined in the foregoing, income and net surplus is charged with the cost of financing and no reduction is made therein until the financial burden applicable to the refunded issue has been extinguished. A company following the plan suggested for extinguishing this burden should report the cost of money in its statement of income as follows:

Interest on funded debt.....	xxx
Amortization of bond discount and expense:	
Applicable to bonds outstanding..	xxx
Applicable to bonds refunded....	xxx
Total	xxx

This presentation is informative and clearly sets forth the effect which the refunding operation will have upon income in subsequent years.

The Fallacy of Graduated Income Taxes on Corporations

by EDWARD P. TREMPER, JR., C.P.A., Seattle, Washington

THE fundamental principle underlying the graduated income tax and the justification for it is that it is based upon the taxpayers ability to pay. The estimated individual need of the average citizen determines the amount of income which has no ability to pay. Beyond that basic need the rate becomes graduated so that with increasing income there is assessed not only a greater tax, but a higher rate of tax. As a principle this has been accepted for many years insofar as it applies to individuals. In accepting this principle it must be once again assumed that all men are created equal, that those who are the recipients of greater rewards shall pay an increasingly greater share of the cost of government. It has been considered as a fair distribution of tax burden among natural citizens.

Corporations are not natural citizens nor are they created equal. They are the instruments of individuals. As such their ability to pay cannot be based upon their income, but only upon the ability to pay of the stockholders that created them. The ultimate disposal of corporate income must be to the stockholders. Thus any corporate tax is a tax upon individuals at the source. As such a tax, if it were to tax according to ability to pay, it must recognize investment. If it does not, it will follow that the resulting tax will often be assessed in direct opposition to the principle of ability to pay.

A corporation with \$10,000.00 of invested capital, earning a net profit of \$10,000.00 is manifestly far more able to pay than a corporation with \$1,000,000.00 invested earning a net profit of \$50,000.00. But under a graduated corporate income tax the one earning \$50,000.00, a 5% return on its investment, would pay a higher rate of tax than that earning \$10,000.00, a 100% return on its investment.

The graduated tax upon corporate in-

comes distorts the tax upon its stockholders for, being in reality a tax on them at the source, it changes the rates otherwise in effect. It increases the rate of tax upon stockholders in large corporations and decreases the rate of tax upon stockholders in small corporations. The effect of this is to virtually nullify the principle of taxation of individual incomes according to ability to pay. In place thereof it introduces to the field of income taxation different ultimate rates upon the same type and amount of income, regardless of ability to pay. It deviates completely from established principles of taxation and places a penalty on size. Such penalty must in the final analysis be paid by the stockholder, whether his income be large or small.

The changes in corporate structures that will be forced under graduated income taxation will depend upon the degree of the graduation. The greater the range of rates the more will corporate enterprises be broken down into smaller units. Such a process of division presents many difficulties in the equitable conservation of stockholders' holdings, in management and in inter-company relations. Without considering the relative merit of large and small corporations it is sufficient to say that certain types of industries require large capital investments. The disintegration of such types cannot but result in lowered efficiency. Such disintegration will, however, become necessary in protecting from high graduated income tax rates. The net result will be a loss to the stockholder. Thus an effort to tax corporations at rates increasing with the size of the corporations will defeat its purpose as a source of tax income by the eventual elimination of the larger corporations.

The source of higher taxation income will tend to disappear, the number of closely related small corporate units will in-

crease with consequent loss of efficiency and increased costs of operation causing the return to stockholders to decrease. Thus, through unsound taxation the income of taxpayers will be reduced without

a compensating benefit to the Government in the form of greater tax collections. From the foregoing it would seem that graduated income taxes cannot be successfully applied to corporate enterprises.

Wee Bits on Accountancy

REGULARLY CONTRIBUTED BY LOUIS S. GOLDBERG, C.P.A., Sioux City, Iowa

Irregular Accounting and Irregularities

The auditors had just finished. It was a simple set of books . . . in fact, just one small book, with some bank statements. In that book were recorded the operations of a little real estate company; the company's only asset was a small building; in the building were only 6 tenants. Here indeed seemed a barren field for misappropriation of funds.

But the auditors reported a shortage of more than nine hundred dollars. And this is how it came to pass:

The Dash Realty Corporation (what's in a name?) was owned by Mr. Dash; and Mr. Dash also owned a large, long-established company which we may call the Dash Mercantile Co. When the realty company was started, the bookkeeper for the mercantile company was assigned also to keep its books (or book), and at first no separate bank account was opened. As funds were needed, some money came from the bank account of Mr. Dash and some from that of the mercantile company, and all that money was intended to be treated as partial payments on the capital stock of the realty company. At times, some of the bills of the realty company were paid directly by Mr. Dash and some by the mercantile company. Thus, all in all, the situation soon became "confusion worse confounded."

The bookkeeper (tried and trusted in the mercantile company) soon sensed the potentialities of this picture. Seemingly secure in his knowledge that independent

audits by public accountants were not the practice of his employer, he set to work to enrich himself at the expense of both the realty and the mercantile company. He was enabled to cash checks through currency made available by the rentals received from the realty company. The accounts of the tenants were, in the main, properly credited; the balancing process was achieved simply by offsetting entries to the debit of the arbitrary "cash account," which was supposed to represent the amount receivable from Mr. Dash and from the mercantile company for the subscriptions to the capital stock of the realty company.

Though the fact of shortage was obvious, the public accountants undertook no simple task in tracing the specific items through the maze of cross-entries in the three bank accounts and the three sets of books. Once again was it demonstrated that irregular accounting methods breed irregularities.

A paradoxical statement which epitomizes the sentiment expressed by many heads of businesses was made recently in an article by Willis Parker. Mr. Parker argued that activity on the part of the individual stimulated activity on the part of others. The statement is this: "When we have nothing to do we do something; and just as surely as we do something when we have nothing to do, something to do turns up."

The Public Accountant *

FRANCIS E. ROSS, C.P.A., Ann Arbor, Michigan

PUBLIC accounting is not entirely a development of the present business age although it is true that in this country it has experienced its greatest growth during the past forty years. Public accountants have practiced in England for the past two hundred years and even in this country men were holding themselves out to the public as experts in auditing as much as one hundred years ago. However, the real growth of this profession has come almost entirely in the present century. At the present time there are probably 30,000 people in the United States engaged in what is known as public accounting. The average person who is not closely identified with some business organization hears very little of the activities of public accountants. Recently a well-known magazine made the statement that today there are preeminently three professions upon whose ethics as well as upon whose skill modern society depends. They are law, medicine, and certified public accountancy. There is no need to argue as to whether or not public accounting is a profession. Perhaps at this date it is too early to judge. It is sufficient to say that in many respects public accounting has the attributes of a profession and as it develops further it may well be included in that group of personal service occupations whose standards and characteristics entitle them to be known as professions. Every State in the Union has enacted laws for the purpose of defining the responsibilities and privileges of this profession, if so it be called. In Michigan, as in every other State, provisions have been made for examinations to determine the competency of practitioners. Those who take and pass the State examinations are given a certificate which entitles them to practice as certified public accountants. In Michigan any who are practicing but have not taken

or have not passed the State examinations are known as public accountants rather than as certified public accountants. Under the present Michigan law which was enacted in 1925 no one is permitted to open an office or begin practice until he has taken and passed the State examinations. In other words, the State is taking a much greater interest in the qualifications of practitioners than ever before.

The importance and value of the services of certified public accountants are receiving greater recognition year by year, and this means an increasing responsibility on the part of certified public accountants to both the client and the public. In particular, banks, trust companies, and credit associations have come to rely to a considerable extent on the work of certified public accountants to assist them in passing judgment on the affairs of the various business enterprises with which these institutions come in contact.

There was a time when the appearance of certified public accountants in a business office was an indication that someone had probably been misappropriating either cash or other valuable property and this condition of affairs was the most serious stumbling block to the certified public accountant in enlarging the scope of his activities. Many owners and managers of business organizations hesitated to engage certified public accountants because they thought that some officers or employees would probably feel that they were under suspicion. Fortunately, this condition no longer exists because the detection of embezzlement or fraud is one of the least important activities of certified public accountants. Today the certified public accountant provides modern business with various types of personal service and business counsel. These include advice in determining the financial structure of new

*Address in the University of Michigan Broadcasting Service over WJR.

organizations, installation of accounting systems, verification of records, that is, auditing, preparing financial statements and income tax returns, analyzing operating results, evaluating personal property and special investigations. Legal training is of great value to a certified public accountant but he should never attempt to give legal advice unless he is also a practicing attorney.

About twenty years ago I was a student in the high school at Manistee, Michigan, and was trying to determine just exactly what occupation I should attempt to fit myself for. I realize now that it was not until after I was at the University of Michigan that I had any idea of specializing in accounting. I want to call this to your attention because it is not necessary at the present time that you, as high school students, should determine definitely the exact occupation in which you intend to engage. It is far more important that you obtain a broad general education in languages, history, mathematics, and social science. Specialization can and should come later. For example, even if you would come to the University of Michigan with the fixed intention of preparing yourself to become a certified public accountant you will find that there are no accounting courses open to you until you have completed two full years in the University. During those two years you will be expected to devote your entire time to general cultural courses. The preparation for whatever specialized field you decide to enter will be deferred to the third, fourth, and fifth years.

About the most frequent criticism that certified public accountants have to offer with respect to the qualifications of young men whom they engage, is that they have not had a sufficiently broad education. If the accounting training is not sufficient the certified public accountant can remedy that situation to a large extent in his own office, but there is little opportunity in the accounting office to teach the use of good English or to correct an inadequate preparation in grammar. Strange as it may seem, an ability to use good English and to write properly is one of the most important qualifications for a person who wishes to be successful in the field of pub-

lic accounting. It is a mistaken idea to suppose that accountants' reports contain only figures. Quite often the mathematical part of the report is the least important and in such cases an ability to express ideas simply and concisely is at least as important as an ability to properly analyze the accounting records of your client.

Thomas W. Byrnes, certified public accountant, recently addressed a joint meeting of the New York State Society of Certified Public Accountants and Vocational Advisers of the Metropolitan District of New York. Among other things, he said, "Junior assistant accountants, office help, or stenographers and typists often come to us deficient in English grammar, spelling, legible handwriting, and a simple business arithmetic. These subjects seem to us to be neglected from the time of departure from the elementary schools, where preparation in them, or so it appears to us, is wholly inadequate. Incredible as it may sound to you, many high school graduates are unable to write the English language; the composition of a business letter or a simple report will bring to light a deplorable lack of acquaintance with grammar, punctuation, and spelling."

I do not wish to create the impression that a student can only prepare himself for a career as a certified public accountant by attending a University School of Business Administration. A considerable proportion of the certified public accountants, many of whom are recognized leaders in their profession, are not college graduates. However, I will say that the firms of certified public accountants are adding a much larger proportion of University graduates to their staffs today than was the case ten years ago. This I believe is due to a considerable extent to the realization of the fact that the average student who has completed a university course which includes a large number of cultural subjects, will be a much more valuable member of the organization five, ten, or twenty years hence than the average student who has not had the same opportunities.

Students often ask, "Is there any way by which I can determine whether or not I have the necessary qualifications to become a certified public accountant?" So far as I know there are no tests which

can be applied to determine definitely a person's aptitude for this particular work. However, the necessary attributes can be outlined in general terms. Recently the following qualifications were listed by the American Institute of Accountants as among those which should be possessed by students who wish to make public accounting their life work.

"1. An appreciation of the necessity for conscientious, pains-taking and accurate labor, even when working without direct supervision.

"2. Natural aptitude for analysis and synthesis.

"3. Ability to assemble ideas on unrelated facts; to interpret their significance and to express conclusions in correct and accurate language.

"4. A sense of perspective which will not be distorted by proximity to minor details.

"5. Great respect for mathematical accuracy.

"6. Poise, tact, and breath of view which will make contact with men of affairs agreeable; a pleasing personality, and a bearing which will induce respect.

"7. Ability to absorb confidential information without divulging it in any manner to others.

"Any young man hoping to attain real success in the profession must display the same attitude toward accounting that the physician, the lawyer, or the engineer displays toward his profession, a willingness to continue with his lifework even at the cost of monetary sacrifice, especially during the early part of his career, and to expend a great amount of time and effort in acquiring the proficiency that can only come as a result of experience in actual practice."

Many of you will wish to know something about the opportunities for advancement and the probable remuneration which you will receive in the offices of certified public accountants. In the first place, do not be misled by any advertisements of correspondence schools which may promise their graduates large incomes. I am not saying this with the idea of casting any reflection on correspondence schools in general. There are in the country several correspondence schools with very high

standards which give excellent instruction in accounting and other business subjects. Unfortunately, however, advertisements sometimes appear which say in effect, "Become a Certified Public Accountant. Earn Five to Ten Thousand Dollars a Year." Many correspondence schools feel as strongly as I do about the harm that such advertisements are likely to cause and I believe that such objectionable advertisements will cease to appear in time. They are objectionable because they give the reader an exaggerated idea of the possible income to be obtained in the public accounting field. They are intended solely to enroll students in the school which issues the advertisement and furthermore, there is an implied assurance that anyone who enrolls in the school and completes the course of instruction will be able to become a certified public accountant.

In discussing this question with you I am going to confine myself to what the average student can expect to encounter during the first few years that he spends in public accounting in Michigan. I will defer the question of obtaining a certificate as a certified public accountant until later in this talk and will assume that you have been employed in the office of a certified public accountant and have had no previous practical experience in that line of work. You will find that for a year or two you will be put through a course of training the nature of which will vary depending upon the firm with which you are connected. To begin with, you will probably be paid from \$80 to \$125 per month. Probably this latter figure will be the maximum that anyone could expect at first. During this period you will work for a considerable amount of time in the office reading reports, checking computations, copying schedules, and in general learning the office procedure. Gradually you will be assigned to experienced accountants and will be sent to the offices of clients to assist in conducting whatever investigation may be under way at the time. If you prove adaptable to the work and your abilities are properly developed you will be given small assignments to handle by yourself and later will be placed in charge of others who are less experienced than yourself. From that point on there is no need

to speculate with regard to your career. Chance and your natural ability will determine the course of events. Obviously, all who enter the field of public accounting cannot hope to become partners in a firm. On the other hand, some obviously will reach the top not only in their particular firm but also in their profession.

At this point it would perhaps be well to call attention to the fact that many who begin their business careers as junior accountants in the offices of certified public accountants often pass from this field into other lines of business activity. The clients of firms of certified public accountants often request the release of employees of the accounting firm and engage them as office managers, controllers, and sometimes as officers of the company. It is safe to say that each year under normal circumstances a large number of people leave the offices of certified public accountants to take advantage of opportunities which have been offered to them in industrial enterprises. Obviously, this tendency has not been so marked during the past three or four years but there is every reason to suppose that the same condition would again develop. In my own mind I am sure that if an individual wishes to make business his life work he can obtain no better experience than to spend one or two years in the office of a certified public accountant. So engaged he will come in contact with many different industries and will get a much broader view of business practices than he will be likely to obtain in any other way.

The most unfavorable circumstance in connection with public accounting is the fact that the work is seasonal to a marked degree. This is due to the fact that a considerable part of the work of certified public accountants consists of auditing the records of individual businesses and in preparing certified statements of financial condition and operating results. These statements are required by banks and credit agencies to assist them in forming an opinion as to the financial strength of the various companies. Although there has been a considerable tendency on the part of business men to adopt what is known as the natural business year the big majority of companies still issue their

annual reports to stockholders and other interested parties on a calendar year basis. This means that the certified public accountant must prepare to handle at least twice as much work during the months of January, February, and March as he will have during any other three-month period of the year. Obviously, he cannot expect to maintain a staff during nine months of the year sufficiently large to take care of the volume of business which he will have during the other three months. This means that practically every firm of certified public accountants finds it necessary to employ temporary help during a short portion of the year. This is an unfortunate situation and the certified public accountant does his best to spread the work throughout the year by urging clients to adopt fiscal years such as July 1 to June 30. In this he is partially successful but the situation is still far from satisfactory.

I will now try to give you some idea of how the practice of public accounting is regulated in the State of Michigan. The Act is administered by the Michigan State Board of Accountancy which is composed of the Governor of the State, and four others appointed by the Governor. One of these must be a member of the legal profession and the other three must be certified public accountants. This board gives examinations twice each year to those who wish to become certified public accountants. Applications to sit for these examinations are accepted only from those who are properly qualified under the Act. In general, the applicant must have graduated from high school and in addition, have had four years of practical experience in the office of a public accountant or a certified public accountant. Although the State does not require the applicant to have a college education, advanced educational training is taken into consideration in the following manner:

In the first place, a student who has graduated from a University School of Business Administration of recognized quality is required to have only two years of practical experience before taking the final certified public accountant examination. In addition, he may take part of the examination immediately upon graduation.

In Michigan at the present time the entire examination for certified public accountants' certificate extends over three days and covers such subjects as Auditing, Accounting Theory, Business Law, Political Economy, and Practical Accounting Problems. All of these examinations except that in Practical Accounting Problems may be taken by the University graduate before he has had any practical experience. Of course, if he wishes he may leave them all to be taken later at the end of the necessary two years of public practice. Many find it a decided advantage to be able to get part of the examination out of the way so that they will not have to be prepared for so many examinations at one time.

Up to the present time the State of Michigan has granted certificates to practice as certified public accountants to more than 500 persons. It is my understanding that four of these are women. Each year the Michigan State Board of Accountancy issues a register containing the names and addresses of all public and certified public accountants who are registered in this State. In addition, the annual Register contains a copy of the Michigan Accountancy Act and other pertinent information. The board distributes copies of this register to each City Clerk and County Clerk and to every bank in the State in addition to other public officials. Anyone who is unable to examine a copy of the Register at his bank or City Clerk's office can obtain a copy by writing to the Michigan State Board of Accountancy which maintains an office in Ann Arbor, Michigan.

As I have said, accounting courses are not offered at the University of Michigan during the freshman and sophomore year. A student who expects to specialize in accounting will be permitted during his third or junior year to take one course in accounting principles. This course runs throughout the entire year and is given as a part of the curriculum of the Economics Department which is a department of the College of Literature, Science, and the Arts. During his Junior year he will also be expected to take the beginning course in Economics which also covers both semesters. If the student at the end of the Junior year still wishes to specialize in

accounting he will apply for admission to the School of Business Administration. The course in this School requires two years' work and the student upon graduation is given the degree of M.B.A., meaning Master of Business Administration. He should not, however, take the wording of this degree too literally because he will find that it will require a considerable amount of practical experience added to his theoretical training before he will feel confident in calling himself a master. Even in the School of Business Administration a student is not permitted to devote himself exclusively to one subject. This is particularly true during the first year in the School. Then he will be required to take courses in Business Management in addition to courses in Accounting which he will be permitted to take. During the second year, which will be the student's fifth year in the University, he is permitted to devote himself more exclusively to his particular field of specialization. The accounting courses offered by the School of Business Administration include Advanced Accounting Principles, Cost Accounting, Accounting Systems, Advanced Accounting Theory, Auditing, and Income Tax Procedure.

"Editorially Speaking," in *Business Week* for March 9, said:

"Secretary of Commerce Daniel C. Roper, sensing that there is altogether too little understanding and correlation between government and business, suggests that, from time to time and for brief intervals, persons occupying important government jobs exchange places with men occupying high positions in the business world. This leads to all sorts of jocose suggestions . . . It also impels contemplation of sober facts. It reminds us that in this country there is almost no such thing as statesmanship, that nowhere are we preparing men for public service. It reminds us also, that our business men know less than enough about affairs of government. Perhaps such an exchange of jobs would accomplish nothing beyond teaching the experimenters how little they know about their own responsibilities. Even that might be worth while."

Mouse Hunting In Germany*

by GEORGE F. McNICHOLS, C.P.A.

"THE KAISER," said an American table companion on the ship coming to Hamburg, "trusted Jehovah in 1904 and Jehovah done him wrong. The German people are going back to Wotan because the Christian God whom they took into partnership for the duration of the war (Gott mit uns) betrayed them." And into my mind came the words of the old nursery rhyme which goes—

Pussycat, pussycat, where have you been?
I've been to London to look at the queen.
Pussycat, pussycat, what did you do there?
Why, I killed a mousie right under the chair.

Pussy's habit-patterns, like those of most tourists, were stronger than was her curiosity and amidst the pomp and circumstance of a Coronation she went mouse hunting, just as she would have done at home.

Current German political phenomena are so far outside the experiences of those of us who, like pussy, carry our fixed habits of thought and action with us, that we cannot grasp the reality that lies back of such phenomena. That the Party-State wants a German national religion is clear but that it wants such religion to be within the framework of Christianity seems no less clear. The Führer said in Hamburg on August 17, 1934, "the National Socialist State professes itself to positive Christianity." Again at Ehrenbreitstein on August 26, 1934, he said, "National Socialism is neither anti-church nor anti-religious but, on the contrary, it stands on the ground of real Christianity," and on June 2, 1935, Reichminister Goebbels said, "the National Socialist Party is absolutely ready to cooperate with the Christian churches."

But, if the Party is willing to play ball with Christianity as is, why are the established confessions crying havoc and why

have so many religious leaders been retired from circulation? The answer is that the difference between profession and practice is as great in Germany as it is elsewhere. We, in America, are accustomed to those whose preaching and practice are quite dissimilar. We remember prohibitionists who were always thirsty and we recall the observation of a famous humorist that the people of the southern states could be depended upon to vote dry provided they were sober enough to get to the polls. There are many Party members in Germany, of high and low degree both inside and outside the churches, who advocate substantial changes in the creeds of those churches.

This mouse hunter has had the privilege of hearing many of these advocates of a new setup speak and they state the case somewhat as follows: Present-day Christianity differs fundamentally from the simple personal faith that the Germanic people learned and accepted in the third and fourth centuries and which was reaffirmed by Kant in the categorical imperative. "Two things," said Kant, "fill me with awe, the starry heavens and the sense of moral responsibility in man." Charlemagne, in the ninth century, compelled these people to accept dogmas and sacraments such as baptism and communion which are meaningless to them. It will be necessary to find new Germanized forms in which the salvation truth can be understood. Hitler will not take the place of Christ but figuratively speaking, he will be a window through which one may be able to apprehend Christ anew in his coming greatness.

The name of Wotan is not mentioned and evidently this doughty warrior god is no longer regarded as a going concern. The wooden horseheads that decorate the gables of Low-German farmhouses commemorate Wotan to whom the horse was consecrated, and they commemorate also the prowess of the pagan warriors who for so many centuries were poison to the

*Before leaving on a trip which carried him through most of Europe, the writer was asked by the editor to send his comments from time to time on conditions as he found them. This is the first.

legions of Rome. The inhabitants of these houses, however, are followers of the Nazarene and Christianity is actually their daily rule of life. One hears of "Boden, Blut und Rasse," and the advocates of 100% Aryanism are as vociferous here as the hundredpercenters are anywhere else. Boden means land, home, place of origin, and the difficulties of proving an unclouded title are as great under this classification as they are under the pure blood and pure race test.

The political revolution in Germany was the child of the Versailles Treaty but the idea of a national religion is very old: Frederick Barbarossa, the Crusader, had it in the twelfth century when he broke with Rome and it was one of the objectives of Martin Luther in the sixteenth century. There is little evidence today to indicate that Deity was with the Allies for much of the spoils taken in 1919 were quick wasting and little salvage value remains. The present worth of the markets seized have practically been destroyed by worldwide currency disorders. Many of the colonies taken turned out to be liabilities rather than assets. German seamanship has restored the prestige of her shipping and her internal economic conditions are better than they are in most of the allied countries. Unemployment has all but disappeared, begging is unknown and the people have faith and confidence in the future. "Gesegnete mahlzeit," says the waiter in the restaurant in Germany as he puts your meal before you and he wishes you thereby a blessed mealtime. "Grüss Gott" (God be with you) is the universal salutation and no one can spend a few months in Germany without wishing this friendly, earnest, hardworking people a Grüss Gott upon leaving.

This study is concerned primarily with the typical rural bank in Minnesota, which should be representative of those in other sections of the country. The case study procedure was selected as the method of approach, the types being (1) a banking clinic, (2) a study of the records of failed banks, and (3) an analysis of bank reorganization.

Chapter headings of Part I, on Condition of Non-Metropolitan Banks in Minnesota, are the Characteristics of Country Banking; an Analysis of Failed State Country Banks in Minnesota; an Analysis of Failed National Country Banks in Minnesota; Bank Reorganizations in Minnesota. Part II deals with Management Policies as to Bond Investment Standards, and Problems of the Local Loan Account. Part III discusses legislative policies.

FEDERAL TAX HANDBOOK, 1934-1935, by Robert H. Montgomery. Published by Ronald Press Company. 1190 pages. \$10.00.

This, the 15th of the Montgomery Tax Manuals, furnishes an expert analysis of the 1934 revenue law and its application. Definite conclusions and outspoken interpretative advice are given regarding questions on which there have been no positive rulings or which admit of more than one construction. It gives in handy compact form the requirements of the 1934 law respecting the various Federal taxes; the attitude of the Treasury as expressed in late rulings and regulations; and of the courts and Board of Tax Appeals as reflected in recent important decisions, together with a discussion of previous rulings and decisions that are still significant.

Book Reviews

A TYPE STUDY OF AMERICAN BANKING, Non-Metropolitan Banks in Minnesota, edited by Russell A. Stevenson, Dean of the School of Business Administration of the University of Minnesota and Director of the Employment Stabilization Research Institute. Vol. IV, No. 1. 162 pages. Price \$1.00.

1935 MANUAL OF FEDERAL INCOME TAX PROCEDURE, by W. B. Castenholz, C.P.A. Published by LaSalle Extension University, Chicago, Ill. 178 pages.

The purpose of this manual is to present the fundamental requirements of the 1934 law as to calculations of income, deductions, and credits with illustrative problems and a non-technical discussion of the

points involved. It deals with the ordinary and usual problems and features which concern the majority of taxpayers, whether corporate or individual.

We have received the following booklets from Gee & Company, Ltd., 6 Kirby Street, E. C. 1, London, England, from "The Accountant" lecture series.

THE BALANCE SHEET AS LITERATURE, by F. J. B. Gardner. No. 34. 12 pages. Price 10d.

A RECONSIDERATION OF AUDITING METHODS: Some suggestions for Meeting Modern Conditions, by Stanley W. Rowland. No. 35. 16 pages. Price 10d.

STOCK EXCHANGE PRACTICE, by the late S. Laking. No. 36. 22 pages. Price 10d.

HOSPITAL ACCOUNTING AND STATISTICS, published by the American Hospital Association, 18 East Division Street, Chicago. 85 pages. Price \$1.00.

This manual was prepared by an Advisory Committee on Accounting of the Council on Community Relations and Administrative Practice of the American Hospital Association, of which C. Rufus Rorem, C.P.A., is Chairman and the late Herbert R. Sands, C.P.A., was a member.

It was prepared for the medium-sized hospital. The purpose is to suggest practical ways by which the administrator can use accounts to control his institution and to interpret his results to others and the bookkeeper or accountant can accumulate and present useful information with a maximum of clarity and a minimum of routine labor.

Following the introductory statement there are presented financial and statistical summaries; classification of financial accounts; classification of hospital facilities and services; special problems of business procedure; check lists of hospital supplies, building structure, fixtures and equipment.

ACCOUNTING PROCEDURE FOR STANDARD COSTS, by Cecil Merle Gillespie, Assistant Professor of Accounting in Northwestern University. Published by Ronald Press Company. 371 pages. Price \$5.00.

The purpose of this work is both to ex-

plain clearly the principles of the three distinct fundamental methods of operating standard costs and to illustrate the application of those principles to actual operating situations. It is a textbook suitable for use in advanced classes or by those interested in studying independently. The material is presented in fifteen "lectures" and five "cases." The lectures include explanation of the advantages and limitations of standard costs as compared with other cost methods, and comparison of each of the three methods of standard costs with the others. They include also a survey of normal return on investment, problems of pricing, simplification of clerical work, standard costs as applied to the field of selling and delivery and other advanced topics. The problems and questions following each lecture apply standard cost principles to various industries. The cases illustrate not only all three methods of operating standard costs, but also the solution of such fundamental problems as standard costs for the sales manager, standard costs for inventory valuation, and the measurement of factory performance.

FINANCIAL MATHEMATICS, by A. W. Richeson, Associate Professor of Mathematics, University of Maryland. Published by Prentice-Hall, Inc., 70 Fifth Ave., New York. 361 pages. Price \$2.50.

This book presents an elementary course in the theory and application of compound interest and annuities certain, and in the fundamental aspects of life annuities and life insurance. It is intended primarily as a text, particularly for students majoring in business administration and commerce, however, it is designed so that it may be used with profit by those who are not specializing in business subjects. As an aid to the student the text includes a review of logarithms, progressions, and the binomial theorem.

LAND ACCOUNTS, by Walter Mucklow, C.P.A. Published by the American Institute Publishing Company, Inc., 135 Cedar Street, New York. 290 pages. Price \$2.50.

This book, recounting the personal experience of a recognized authority on real

estate accounts, is a welcome addition to present-day accounting literature. It has been over twenty years since the author's previous book on the subject and in the interim rapid and radical changes have taken place. This new work treats concisely and adequately the newer developments as well as the fundamental aspects of the subject.

AUDITING THEORY AND PRACTICE, by Robert H. Montgomery. Published by Ronald Press Company. 722 pages. Price \$6.00. Fifth edition.

This book has been rewritten to meet present-day requirements as to new public viewpoint on the auditor's work and responsibilities; new practices and standards that have developed in doing business; new techniques in accounting; new governmental demands as reflected in closer regulations and in changing tax structure.

It offers clear and helpful suggestions, counsel and discussion on: The Auditor and His Work; Purposes and Advantages of an Audit; Auditing Method and Procedure; Preparatory Considerations; Balance Sheet—Content and Form; Cash; Notes and Acceptances Receivable; Accounts Receivable; Inventories—Verification; Inventories—Valuation; Investments; Fixed Assets—Tangible; Prepaid Expenses and Deferred Charges; Intangible and Contingent Assets; Current Liabilities; Long-Term Liabilities; Contingent Liabilities; Capital and Surplus; the Income Account; Verification of the Income Account—Costs and Expenses; Depreciation and Depletion; Interest; Branch Audits; Consolidated Statements; Partnerships, Joint Ventures, and Fiduciaries; Investigations; Auditors' Reports; Auditors' Certificates; Legal Rights and Responsibilities of Auditors; Liabilities of Directors.

1934 SUPPLEMENT TO OHIO C.P.A. PROBLEMS AND SOLUTIONS, by William E. Dickerson, C.P.A., Associate Professor of Accounting, Ohio State University. Price \$1.00. Orders should be placed with the Ohio State University Book Store, Columbus, Ohio.

Advanced students of Accounting desir-

ing a review of theory, practice and worksheet technique, will find this material helpful. A statement of and solution for each of the six practical problems given during 1934 are given. Each solution includes work sheets, journal entries and comments on difficult or interesting questions arising in connection with the problems. Similar supplements for the years 1932 and 1933 are available at the same price.

FINANCIAL ORGANIZATION AND ADMINISTRATION, by W. Mackenzie Stevens, C.P.A., Professor of Marketing and Financial Management, Louisiana State University. Published by American Book Company, 88 Lexington Ave., New York City. 670 pages. Price \$4.00.

This text is intended to show the student of business administration how to raise capital, how to adjust the financial structure to requirements of investors, business conditions, and current development of an enterprise, and how to administer the financial affairs of a going business effectively.

Part I, on Financial Organization, is concerned with the Types of Ownership Organization; the Capital Structure; Devices to Apportion Income; Devices to Apportion Risk; Devices to Apportion Control; Adjustment of Management and Investor Requirements Through Security Issues; Use of Par and No-Par Stock; Retirement and Refunding of Security Issues; Recasting the Financial Structure; Reorganization of a Failed Business; Expansion, Combination and Trade Association; Capitalization—Amount of Securities to Issue. Part II is devoted to Procurement of Capital. Chapters treat the Established Enterprise; Procurement of Funds by Borrowing and by Stock Sales; Financing the New Enterprise; Self-Financing Methods; Procurement of Outside Capital for a New Business; Incorporation; Public Regulation of the Sale of Securities. Part III, on Financial Administration, discusses Budgetary Control of Sales; Forecasting of Future Sales; Financial Control of Production; Control of Purchases and Inventories; Control of Expenses; Control of Assets; Coordination of Financial Administration.

FINANCIAL REPORTS FOR COLLEGES AND UNIVERSITIES, compiled by the National Committee on Standard Reports for Institutions of Higher Education. Published by the University of Chicago Press, Chicago, Illinois. 285 pages. Price \$3.00.

The National Committee on Standard Reports for Institutions of Higher Education was organized in 1930 for the purpose of formulating principles to be followed in the preparation of financial and statistical reports of universities and colleges, and of securing the acceptance and adoption of those principles. The Committee's object was to achieve general uniformity in reports required for institutional purposes and by Federal, State, and municipal governments, various accrediting agencies, and other central statistical and controlling bodies.

Certified Public Accountants on the committee were: H. C. Edgerton, Treasurer of Dartmouth College; F. L. Jackson, Treasurer of Davidson College; Lloyd Morey, Comptroller and Professor of Accountancy, University of Illinois; and G. A. Mills, Bursar of Princeton University.

The active management of the National Committee's program was delegated to an executive committee consisting of the officers and one other member of the Committee, Lloyd Morey being Chairman and F. L. Jackson, Vice-Chairman.

This volume, which concludes the work of the Committee, represents a consolidation of their previous publications dealing with proposed standard forms, procedures, and terminology, revised to take account, as far as possible, of the criticism and suggestions received.

COST ACCOUNTING, PRINCIPLES AND PRACTICE, by James L. Dohr, Howell A. Ingraham and Andrew L. Love. Second Revised Edition. Columbia University Accounting Series. Published by Ronald Press Company, 15 East 26th Street, New York City. 621 pages. Price \$4.00.

The present revision includes, in the first twenty chapters, a somewhat simplified presentation of ordinary "job order" and "process" cost accounting. In the pro-

cedure outlined therein complications have been eliminated as far as possible in order to cover the basic principles and procedures in a minimum of time. The treatment of basic cost procedure is followed by a series of chapters devoted to special cost problems. Three chapters have been added on the subject of "standard costs" and its correlation with "budgetary" accounting, giving (a) the use of the "ideal" standard with the ledger record kept in terms of the standard, (b) the "measure" standard with the ledger record kept in terms of both standard and actual, and (c) the extension of the standard cost philosophy to all parts of the profit and loss statement in the comparison of "budget" and "actual." A new chapter has been included on losses resulting from decline in commodity prices, idle plant capacity, idle labor and idle capital. In the concluding chapter some consideration is given to the subject of uniform or "associative" accounting.

An effort has been made to simplify and standardize the terminology and a carefully prepared glossary has been included.

CONTROL OF THE RETAIL UNITS OF CHAIN STORES, by Edgar H. Gault. Vol. VII, No. 1, University of Michigan School of Business Administration, Bureau of Business Research, Ann Arbor. 99 pages. Price \$1.00.

This monograph is a study based on the analysis of control methods employed by the central offices of 62 different chain store organizations handling 16 different types of merchandise in local, sectional, and national chains of retail stores. The study considers two questions: (1) What are the control methods used? (2) What conditions of operation are influential in the determination of adequate control methods?

The presentation gives an insight into the managerial policies of the various chain organizations and discusses the adaptability of various control methods to varying operating conditions existent in different types of chains.

A Short Trip

A PROMISE made some time since that, if possible, the Secretary would attend the annual meeting of the Tennessee Society, was carried out and at the same time two visits were made and a matter of business was tended to on the same trip.

Leaving Washington Tuesday afternoon, August 27, the Secretary spent a portion of Wednesday at Atlanta. Twenty-five of the certified men in the capital of Georgia gathered at the Atlanta Club for a luncheon following which a report was made concerning the various legislative matters in which accountants were interested that had been introduced at the recent Congress. It was announced at the meeting that the Georgia Society was soon to establish another chapter and that about the middle of September there would be a meeting for the purpose of discussing the report of the Atlantic City Conference which was attended by President Gottenstrater and Bill Carter, member of the Board of Directors of The American Society.

Leaving Atlanta in the middle of the afternoon, Birmingham was reached about ten o'clock that evening. Thursday morning the certified men in Birmingham, with the exception of two who were out of the city, gathered at the Tutwiler for breakfast after which the Secretary discussed the situation at Washington in much the same manner as he had done in Atlanta. President Dukes, who was at Atlantic City, had not returned and as he had already announced that he would prepare a report on his return, the affairs of the Conference were not discussed. The breakfast arrangements were made by J. J. Scarborough, Secretary of the State Society.

Leaving Birmingham at noon on Thursday, Kansas City, Missouri, was reached early Friday morning. Here the day was spent in finishing up detailed plans with reference to the annual meeting of The American Society to be held there the last day of September and the first three days of October. It is evident that the members of the Missouri Society will outdo them-

selves as hosts for this meeting. Plans have sufficiently progressed to indicate that the program will be extremely practical and that the side issues in the form of entertainment will be properly cared for.

Leaving Kansas City Friday night, Memphis, Tennessee, was reached Saturday morning. The annual meeting of the Tennessee Society was held at the Hotel Gayoso. It began Friday morning. After the usual preliminaries the first address was given by George Armistead, of Houston, Texas, President of the American Institute of Accountants. Mr. Armistead traced the history of accounting from its earliest stages down to the present and his address furnished a setting into which current everyday problems of the profession were readily injected. This was followed by the president's address, given by Hilary H. Osborn of Nashville. President Osborn gave a report of things accomplished during the period of his administration and the 75 members present had reason to be proud of the progress made during the past year.

After luncheon James L. Kennedy, Manager of the Memphis Clearing House, spoke on the subject of "Bankers and Accountants." The central theme running through the entire address was the need for better cooperation between these two groups in the interest of the public. He was followed by W. H. Eagle of Nashville, Assistant Attorney General of Tennessee and attorney member for the State Board of Accountancy, who spoke to the subject "A Typical Board Meeting." While given in a humorous vein, the various problems confronting a State Board were brought to the attention of the members present in a manner that gave a vivid picture of the service rendered by a State Board.

In the evening a round table was conducted at which time local problems were discussed in an informal manner. During the day the ladies had been provided with entertainment by the wives of the local

accountants and in the evening had enjoyed a movie.

Saturday morning the first speaker was Robert H. McNair, C.P.A., of Little Rock, Arkansas, Chief Accountant of the Works Progress Administration for that State. The Secretary has heard many Government officials during the last two-and-a-half years, or thereabouts, who have attempted to present the various phases involved in connection with the development of the new type of Federal control. With not to exceed two exceptions, McNair told the story of the work in Arkansas, so that the listeners realized just what was being done and how it was being done, in not only a more interesting manner but in a more instructive manner than any other speaker which he had heard. He presented his material without any if's and but's and he is respectfully recommended to the present Administration as one who has made his job a part of his personality to such an extent as that a listener is convinced that he has made good and is making good. In round figures, 50 million dollars had been spent on relief; 19% was for direct relief, 51% was for work relief; 14% was for rural rehabilitation; 4% for the education program and 2% on transients; miscellaneous items accounted for another 2%, with the administration cost being 8% of the total. The funds handled had been received from the RFC, the CWA, the ERA and from the RRC. His explanation of the Dyess Rehabilitation Colony was an extremely interesting statement of a form of work about which ordinarily very little is known.

The Secretary of The American Society discussed the general development of the accounting profession, with relation to the Federal Government, after which a Round Table conducted by Harry M. Jay occupied the balance of the time until one o'clock. The round table was devoted to a report by President Osborn concerning the Atlantic City Conference, following which questions were asked of him, of the leader, who was also at Atlantic City, and of the Secretary of The American Society.

At the close the policy of President Osborn was unanimously endorsed.

Saturday afternoon was given over to recreation. The ladies were taken on a

tour of the city, some of the men played golf, some saw Will Rogers in "Steamboat Round the Bend" and others just caught up on sleep they missed the night before.

Following the banquet in the evening President Osborn introduced George Morris, Editor-in-Chief of the *Commercial Appeal*, as the toastmaster of the occasion. The *Commercial Appeal* has lent its influence at all times to the theory that if a man pays taxes he can very well afford to pay just a little bit more for the purpose of having proper audits made in order that he may know that the money which he did pay was legally expended. One of Mr. Morris' editorials appeared in the August issue of THE CERTIFIED PUBLIC ACCOUNTANT. Speaking of defalcations, he commented, "Strangely enough the shortage of accounts of officials of Tennessee amounted to about half of the biennial deficit."

Entertainment was furnished by a group of four dancers, a blues singer, a violinist, a recitationist, an exceptionally fine boy entertainer, and a clever card artist. The newly elected officers were introduced: Roscoe C. Clark of Memphis, President; Buford A. Timmons of Knoxville, Vice-President; J. A. Grannis of Nashville, Secretary; Fred Williams of Chattanooga, Treasurer; and John Foster of Chattanooga, Auditor.

The Secretary of The American Society complimented the Tennessee Society on its successful meeting, advised the ladies present to see that their husbands attended the Kansas City meeting and that they went along, and suggested to the officary just assuming responsibilities that they should not over-emphasize the honors but rather the opportunities for service during the coming year.

GOOD EVIDENCE

"I see the jury acquitted the girl who killed her employer, on the grounds of insanity."

"Yes, and quite right, too. Anybody who kills an employer these days is certainly crazy."

Questions and Answers Department

EDITOR, STEPHEN GILMAN, C.P.A., Educational Director
International Accountants Society, Inc.

Solution to Problem 10 of November, 1934, Examination Service of The American Society of Certified Public Accountants, published on pages 250-252 of the April, 1935, issue.

As relatively few adjustments are required to give effect to the plan of recapitalization, such adjustments may be set up in the form of journal entries, which are a requirement of the problem. The amounts indicated in these journal entries may be combined with the trial balance figures as stated in the problem and the balance sheet constructed directly from such combination. Much time can be saved in this way as the problem does not specifically require a working sheet.

It appears desirable in the solution of this problem to call attention to dividends which by reason of time elapsed have accumulated on the preferred stock. The amount accrued per share and unpaid to April 30, 1934, is given in a footnote to the balance sheet.

BELLWOOD MANUFACTURING COMPANY

Journal Entries

(To record Recapitalization Plan)

April 30, 1934

6% Cumulative Prior-preferred Stock Unissued....	\$ 750,000.00	
6% Cumulative Prior-preferred Stock Authorized		\$ 750,000.00
To record authorization of 15,000 shares (par \$50)		
of 6% cumulative prior-preferred stock.		
Common Stock Unissued	1,000,000.00	
Common Stock Authorized		1,000,000.00
To record authorization of 50,000 shares (par \$20)		
of common stock.		
7% Cumulative Preferred Stock	694,500.00	
6% Cumulative Prior-preferred Stock		
Unissued		694,500.00
To record issuance of 13,890 shares of 6% stock		
for like number of shares of old 7% stock in ac-		
cordance with terms of recapitalization plan.		
Capital and Paid-in Surplus	277,800.00	
Common Stock Unissued		277,800.00
To record issuance of 13,890 shares of common		
stock (par \$20) in accordance with terms of re-		
capitalization plan, to holders of old 7% preferred		
stock exchanged.		
Common Stock—Class A	750,000.00	
Common Stock—Class B	250,000.00	
Common Stock Unissued		350,000.00
Capital and Paid-in Surplus		650,000.00
To record issuance of 17,500 shares (par \$20) of		
new common stock for entire issues of old Class		
A stock (share for share) and Class B stock ($\frac{1}{2}$		

share new for 1 share old) in accordance with terms of recapitalization plan, as follows:

Old stock cancelled:

15,000 shares, Class A @ \$50 = \$ 750,000
5,000 shares, Class B @ 50 = 250,000

\$1,000,000

New stock issued:

17,500 shares @ \$20 = 350,000

Capital and paid-in surplus \$ 650,000

Reserve for Depreciation on Plant and Equipment... 412,199.65

Capital and Paid-in Surplus 629,908.18

Plant and Equipment 960,233.40

Patents, Franchises, etc. 52,219.78

Deferred Charges and other assets..... 29,654.65

To record write-down of assets to present-day values.

BELLWOOD MANUFACTURING COMPANY BALANCE SHEET

(Giving effect to recapitalization plan)

April 30, 1934

ASSETS

Current Assets:

Cash on Hand and in Banks.... \$ 118,656.79

Notes Receivable 50,941.97

Trade Accounts Receivable (net) 295,570.01

Inventories of Products and Supplies (at lower of cost or market) 811,888.03

Investments in Stocks and Bonds (at lower of cost or market) 169,310.06

Total Current Assets..... \$1,446,366.86

Fixed Assets:

Real Estate (appraised value at July 1, 1928)..... \$ 26,976.35

Plant and Equipment (appraised value at January 1, 1934).... \$1,841,689.92

Less—Reserve for Depreciation.. 572,183.11 1,269,506.81

Total Fixed Assets..... \$1,296,483.16

Deferred Charges and Other Assets 32,463.88

Total Assets \$2,775,313.90

LIABILITIES

Current Liabilities:

Notes and Acceptances Payable \$ 95,216.37

Accounts Payable 171,392.76

Interest, Wages and Taxes Accrued 15,032.38

Total Current Liabilities... \$ 281,641.51

Fixed Liabilities:

6%, Thirty-year First Mortgage Gold Bonds (due July 1, 1958)	1,000,000.00
---	--------------

Total Liabilities	\$1,281,641.51
-------------------------	----------------

NET WORTH

Capital Stock:

*6% Cumulative Prior-preferred Stock (par \$50):		
Authorized, 15,000 shares..	\$ 750,000.00	
Less—Unissued, 1,110 shares	55,500.00	\$ 694,500.00

**7% Cumulative Preferred Stock (par \$50):		
Outstanding, 1,110 shares..	55,500.00	
Common Stock (par \$20):		
Authorized, 50,000 shares....	\$1,000,000.00	
Less—Unissued, 18,610 shares	372,200.00	627,800.00

\$1,377,800.00

<i>Earned Surplus</i>	57,606.89
<i>Capital and Paid-in Surplus</i>	58,265.50

Total Net Worth	\$1,493,672.39
-----------------------	----------------

Total Liabilities and Net Worth	\$2,775,313.90
---------------------------------	----------------

*Dividends accumulated and unpaid of \$1.00 per share from January 1, 1934.

**Dividends accumulated and unpaid of \$9.92 per share from July 1, 1931.

BELLWOOD MANUFACTURING COMPANY

Computation of Earned Surplus Available for Common Stock Dividends.

July 1, 1934

Total Earned Surplus, July 1, 1934	\$ 55,000.00
--	--------------

Less:

Accumulated Dividends on 6% Prior-preferred Stock:		
3% of \$694,500	\$ 20,835.00	
Accumulated Dividends on 7% Preferred Stock:		
21% (three years) of \$55,500	11,655.00	32,490.00

Earned Surplus Available for Common Stock	\$ 22,510.00
---	--------------

\$22,510 (Earned Surplus)

= 71.7¢ per share

31,390 (Shares)

BELLWOOD MANUFACTURING COMPANY

Computation of Annual Per Cent Yield to Common Stock

(on assumed basis)

As of December 31, 1934

Annual Earnings (assumed twice the earnings of first six months)	\$110,000.00
---	--------------

Less:

Dividends on 6% Prior-preferred Stock	
6% of \$694,500	\$ 41,670.00

Dividends on 7% Preferred Stock:

7% of \$55,500.....	3,885.00	45,555.00
---------------------	----------	-----------

Earned Surplus Available for Common Stock Dividends...	\$ 64,445.00
--	--------------

Earned Surplus Available Per Share for Dividends on Common Stock (31,390 shares).....	\$2.05
\$64,445 (Earned Surplus)	

Yield Per Cent on Common Stock =	\$627,800 (Common Stock)	= 10.27%
----------------------------------	--------------------------	----------

TALKING SHOP

A DEPARTMENT CONDUCTED BY LEWIS GLUICK, C.P.A., New York

We have often been asked "How do you manage to get out the shop talk?" Our answer is a yarn that was new about the time Farragut damned the torpedoes. A Navy cook was being examined for promotion to steward. "How do you make hash?" asked the examiner. "You don't make it, sir," replied the cook. "It jes accumulates."

Herewith we present the analysis which that fine chemist, Sidney Marcus has made of our hash for the fiscal year just ended.

INDEX

A

Abacus, 1-35.
Accidents, 8-35.
Accountant, and arbitration, 12-34.
 and bankers, 2-35.
 and business conditions, 10-34.
 appearance of the professional, 8-35.
 junior-s, 1-35.
 practicing law, 8-35.
 travelling by air, 11-34.
Adventures, 2-35.
Advertising, accounting services, 4-35, 7-35.
 by C. P. A's, 2-35.
Airplane, travelling by, 11-34.
Alumni meetings, 6-35.
Anecdotes, 2-35, 3-35, 5-35, 8-35.
Appearance, of the professional accountant, 8-35.
Appreciation, 4-35.
Arbitration, 12-34.
Army, 6-35.
Atlantic City, 10-34, 4-35, 5-35.
Auditing, character of people, 4-35.
 fraternities, 1-35.
 periodic, 6-35.
Auditor vs. Client, 4-35.

Auditors, ability to foretell trouble, 2-35.
Avoidance of taxes, 3-35.

B

Bankruptcy cases, the accountant in, 2-35, 7-35, 8-35.
Banks, directors' duties, 1-35.
 examiners of, 3-35.
Barter shop, 3-35.
Baseball, 2-35, 3-35.
Bookkeepers, commission of fraud by, 8-35.
Brother and Sister firm of C. P. A's, 1-35.
Business Shows, 11-34.

C

Card Playing, bridge, 6-35.
Certified Public Accountant, advertising, 2-35.
 as bank director, 1-35.
 brother and sister firm, 1-35.
Clothes, proper—for C. P. A's, 8-35.
Coca-Cola, 9-34.
Committees, professional, 7-35.
Complaints, by accountants, 9-34.
Consolidations, 4-35.
Cost Accounting, 4-35.
Credit Men and Accountants, 2-35.
Court Martial, 6-35.

D

Depreciation and Taxes, 1-35.
Directors, 1-35.
Dishonesty, among company officials, 12-34.
Dividends, 5-35.
Divorces, 12-34, 4-35.
Doctor, the accountant as a—of business, 5-35.
Dun and Bradstreet's Review, 5-35.

E

Earned Income Credit, 3-35.
Embarrassments, 1-35.
English, 7-35.
Ethics, 12-34, 2-35, 7-35.

F

Father and Son, 3-35.
Fees, accountant's, 2-35, 3-35, 4-35, 5-35.
Finance, Municipal, 1-35.
Fingerprints, by N. Y. C. Police Dept., 3-35.
Football, 11-34, 1-35.
Fraternities, auditing for, 1-35.
Fraud, by bookkeepers, 8-35.
by company officials, 12-34.

G

Garbage Man in B. T. A. Case, 2-35.
Gold, 4-35, 6-35.
Clause Act, 4-35.
Governmental Accounting, 1-35.

H

Hats, importance of—to C. P. A's, 8-35.
Herald-Tribune, New York, 10-34.
Hiking, 10-34.
History, of and for Accountants, 5-35.
Hobbies, 10-34, 11-34, 1-35.
of "Talking Shop," 9-34.
Horse Racing, 6-35.
Horticulture, 6-35.
Human Interest in Tax Cases, 11-34, 1-35, 2-35,
4-35, 5-35, 7-35, 8-35.
Humor, 1-35, 3-35, 4-35, 5-35, 6-35, 8-35.

I

Installment Accounts, 4-35.
Instructor of Accounting, 5-35.
Insurance, and importance of auditing, 7-35.
oldest—policy in the U. S., 7-35.
organization, 1-35.
Inventory, 4-35.

L

Latin, 9-34.
Law Suit, accident case, 8-35.
Lawyers, in the accounting profession, 8-35.
Leases and Leaseholds, 4-35.
Liquidations, 8-35.
Liquors and Wines, inventory of, 4-35.

M

Machinery, 10-34.
Marriage, accountant's proposal of, 1-35, 6-35.
Mergers, 4-35.
Monthly Audits, 6-35.
Monopoly, client's, 8-35.
Morgan, J. P., 8-35.

N

Navy, United States, 5-35.
N. R. A. and New Deal, 10-34, 2-35.
N. Y. C. Police Dept., fingerprints by, 3-35.

O

Observation, in client's office, 2-35.
Opera, 6-35.

P

Pamphlets, of value to accountants, 2-35.
Patents, 8-35.
Percentages, 3-35.
Philatelist, 11-34.
Phi Beta Kappa, 5-35.
Philosophy, Doctors of, 6-35.
Post, Saturday Evening, 10-34.
Practice, of accounting, 5-35, 7-35.
Proposing Marriage, by an accountant, 1-35.
Professions, Comparative Incomes of, 6-35.
Profits, 5-35.

R

Radio, 12-34.
Ratios, 3-35.
Reading for Pleasure, 9-34, 10-34, 11-34, 1-35,
5-35.
Realty, B. T. A. cases, 10-34.
Reports, by accountants, 9-34.
Reserve for Purchase Discounts, 5-35.
Restaurants, 4-35.
Reviews, Book, 9-34, 10-34, 11-34, 1-35.
Russia, 1-35.

S

Scavenger Service, B. T. A. case, 2-35.
Shakespeare, 8-35.
Shop Talkers, The, 10-34, 11-34, 12-34, 1-35,
2-35, 3-35, 4-35, 5-35, 6-35, 8-35.
origin of, 9-34.
purpose of, 2-35.
Short Cuts in Accounting, 3-35.
Slang, in accountants' reports, 9-34.
Slide Rule, 3-35.
Specialists, 4-35.
Speeches, at State Societies, 3-35.
State Societies, importance of, 12-34, 7-35.
visits to, 7-35.
Statements, accounting, 12-34, 1-35, 3-35.
Statistics, 10-34.

T

Tax, cases, 10-34, 11-34, 2-35, 3-35, 4-35, 8-35.
Federal, 9-34, 3-35.
services, 2-35, 3-35.
Technique, 1-35.
Theatre, 9-34, 3-35.
Times, New York, 9-34.
Track Champion, 11-34.
Travelling, by airplane, 11-34.
by train, 6-35.
Trial Balance, 8-34, 10-34.

U

Undertaker, client, 5-35.

W

Washington, City of, 9-34, 11-34, 5-35.
Weather, 9-34.
Wills, curious and odd, 3-35.
Wines and Liquors, inventory of, 4-35.
Working Papers, 3-35.

C. P. A. Examination Questions

May, 1935

Practical Accounting

PROBLEM 6:

The board of education of the Margate Public School has been criticized for overspending its available funds and you have been called in by the board to prepare a balance sheet of the school district as at June 30, 1934 and a statement of revenues and expenditures for the year ending on that date. It is agreed that the expenditures should be shown on an accrual basis, without regard to tax-levy provisions. The adjustments to tax-levy revenue caused thereby should be detailed as a part of the statement of revenues and expenditures. Your statements should be accompanied by a brief explanation of any overexpenditure you may discover, and you should suggest a remedy whereby such overexpenditures may be avoided in the future.

Below is the budget for the school year ended June 30, 1934, as it appears in the minutes of the school's board of education, together with a statement of receipts and disbursements for the same period summarized from the available records:

<i>Particulars</i>	<i>Budget</i>	<i>Receipts and Disbursements</i>	
		<i>Educational Fund</i>	<i>Building Fund</i>
Cash in hands of township treasurer, July 1, 1933 ..		\$ 38,676.39	\$ 12,152.10
Current tax levy (calendar-tax year 1933), representing amount certified to county clerk and levied against assessed valuation of all taxable property situated within the school district	\$556,914.54		
Less—Provision for loss and cost in collection	55,691.45		
Estimated revenue from taxes	\$501,223.09		
Receipts from—			
Collection of taxes—			
Current levy		90,896.45	34,540.65
Prior levies		277,490.95	114,615.77
Current tuition and fees	20,000.00	14,612.50
Sale of 1933 tax-anticipation warrants at par, the principal and interest on which are payable from the proceeds of collections of 1933 levy		\$280,000.00	\$80,000.00
Total receipts	\$521,223.09	\$662,999.90	\$229,156.42
Opening balance, plus receipts		\$701,676.29	\$241,308.52

Disbursements—

Salaries and wages	\$350,150.00	\$374,450.19	\$ 2,000.00
Supplies, fuel, insurance and other operating expenses	21,830.59	21,443.68	3,826.07
Matured building-construction bonds—			
Due October 1, 1933			50,000.00
Due October 1, 1934	75,000.00		
Maturities of bond interest—			
October 1, 1933	22,500.00		22,500.00
April 1, 1934	20,812.50		20,812.50
Redemption of tax-anticipation warrants—			
1933 warrants		25,000.00	10,000.00
1932 and prior warrants		200,000.00	90,000.00
Interest on redeemed warrants at 6% from date of issue—			
1933 warrants		1,125.00	450.00
1932 and prior warrants	30,000.00	23,692.06	10,742.13
Final installment on street-paving special assessment	930.00		930.00
Payment of all accounts payable outstanding as at June 30, 1933, for supplies and other operating expenses		2,089.46	312.16
Total disbursements	<u>\$521,223.09</u>	<u>\$647,800.39</u>	<u>\$211,572.86</u>
Cash in hands of township treasurer, June 30, 1934		<u>\$ 53,875.90</u>	<u>\$ 29,735.66</u>

Following is the status of uncollected taxes as at June 30, 1934:

<i>Tax-Levy Year</i>	<i>Original Levy Less 10% Reserve for Loss and Cost</i>	<i>Collections</i>	<i>Uncollected Balance (Net)</i>
Educational—			
Prior years	\$1,853,219.76	\$1,611,201.78	\$242,017.98
1933	361,092.17	90,896.45	270,195.72
1934 applicable to years 1934-5.....			
Building—			
Prior years	673,405.27	501,979.57	171,425.70
1933	137,215.03	34,540.65	102,674.38
1934 applicable to year 1934-35.....			

In addition to the sale of tax-anticipation warrants indicated in the foregoing statement of receipts and disbursements, 1932 building-fund tax-anticipation warrants were issued at par to redeem \$25,000.00 in principal amount of building-construction bonds as at October 1, 1933.

As at June 30, 1933, the following tax-anticipation warrants payable from collections on the 1932 and prior tax levies were outstanding:

Payable only from Taxes

<i>Collected for</i>	<i>Principal</i>
Educational purposes	\$395,000.00
Building purposes	150,000.00
Total	<u>\$545,000.00</u>

Following is an analysis of accrued interest on tax-anticipation warrants:

<i>Payable Only From Taxes Collected For</i>	<i>Balance 6-30-33</i>	<i>Subsequently Accrued</i>	<i>Paid 6-30-33 to 6-30-34</i>	<i>Balance 6-30-34</i>
1932 and prior years—				
Educational purposes	\$40,927.60	\$18,412.04	\$23,692.06	\$35,647.58
Building purposes	18,584.38	5,944.45	10,742.13	13,786.70
1933—				
Educational purposes		8,777.37	1,125.00	7,652.37
Building purposes		3,350.22	450.00	2,900.22
Totals	\$59,511.98	\$36,484.08	\$36,009.19	\$59,986.87

The board of education has estimated that subsequent to June 30, 1934, interest will accrue on 1933 and prior warrants up to the time of the final redemptions as follows:

<i>Particulars</i>	<i>Amount</i>
1932 and prior warrants—	
balance of prior years' estimates—	
Educational purposes	\$ 4,352.42
Building purposes	1,213.30
1933 warrants—	
Educational purposes	17,847.63
Building purposes	6,599.78
Total	\$30,013.13

Accounts payable for supplies, etc. at June 30, 1934 totaled \$2,517.90, of which \$2,112.70 was applicable to the educational fund and the balance to the building fund.

Bonded indebtedness consisted of two building-construction issues:

(1) Originally issued, \$1,000,000; retired in prior years, \$500,000; retired in current year, \$50,000; due in succeeding years, \$450,000.

(2) Originally issued, \$500,000; retired in current years, \$25,000; due in succeeding years, \$475,000.

The provision of \$75,000 in the current year's budget covers the maturities on the above issues due on October 1, 1934. Maturities of the same amount during the current year were provided for in the budget of the next preceding year in accordance with the provisions of the trust indentures underlying the two issues. Interest on both issues is chargeable against the tax levies applicable to the year in which it is paid.

PROBLEM 7:

The New Deal Subsidiary Corporation is wholly owned by the New Deal Corporation. You have been called in by the trustee for the 6% debentures of the New Deal Subsidiary Corporation to prepare a balance sheet of that company as of December 31, 1934.

In examining the indenture, you discover the following provisions:

"The New Deal Corporation guarantees that the net earnings of the New Deal Subsidiary Corporation during each year shall be at least 150% of the annual interest charges on all its indebtedness outstanding at the end of the year. 'Net earnings,' as referred to herein, shall be the excess of cash receipts over cash disbursements before interest deduc-

tions. The New Deal Corporation further guarantees that so long as any of the 6% debentures of the New Deal Subsidiary Corporation are outstanding, the value, not exceeding market, of the tangible assets of the subsidiary at the end of each year shall be at least 125% of the total amount of all its funded debt and notes payable. The New Deal Subsidiary Corporation shall, upon determination of any deficiency or deficiencies, as set forth above, bill the New Deal Corporation for such deficiency or deficiencies, and adjust the balance sheet and profit-and-loss statement at the end of each year to conform with the requirement of the indenture. The New Deal Corporation shall pay such deficiency or deficiencies in cash."

Other facts discovered in the course of your examination are:

There were no additions to fixed assets in 1934, but fixed assets totaling \$56,500 were charged to the reserve for depreciation.

The amount of accounts receivable written off against the reserve for bad debts during 1934 was \$24,000.

Market values at December 31, 1934 of \$100-par common stock of the Q.E.D. Company, the 7% preferred stock of the I.O.U. Company, and the no-par value stock of the F.O.B. Company were 60, 50 and 42½, respectively.

THE NEW DEAL SUBSIDIARY CORPORATION

<i>Debits</i>	<i>Trial Balances</i>	
	<i>After Closing Dec. 31, 1933</i>	<i>Dec. 31 1934 Before Closing</i>
Fixed assets	\$ 5,256,500	\$ 5,200,000
Amortization of debt discount and expense		30,000
Inventories	384,000	588,000
Prepaid interest		12,000
Cash	625,000	498,000
Operating expenses (including provisions for depreciation and bad debts)		1,128,500
Customers' accounts receivable	439,000	275,000
Unamortized debt discount and expense	277,500	247,500
Other interest expense		6,000
Property taxes		80,000
Investments (see schedule below)	4,850,000	4,850,000
Interest on funded debt		420,000
	<u>\$11,832,000</u>	<u>\$13,335,000</u>
<i>Credits</i>		
Common stock, no-par value, 6,000 shares	\$ 3,000,000	\$ 3,000,000
Reserve for bad debts	78,000	78,000
Sales to customers		981,000
Accrued property taxes	200,000	245,000
Reserve for depreciation	897,000	1,014,000
5% note payable September 1, 1935		360,000
Reserve for losses on investments		255,000
6% debentures, due April 1, 1943	7,000,000	7,000,000
Earned surplus	552,000	297,000
Accrued interest on funded debt	105,000	105,000
	<u>\$11,832,000</u>	<u>\$13,335,000</u>

INVESTMENTS

Q. E. D. Company	\$100-par common stock.....	17,500 shares	\$1,750,000
I. O. U. Company	7% preferred stock	11,000 shares	1,100,000
F. O. B. Company	No-par common stock	40,000 shares	2,000,000
			<u>\$4,850,000</u>

PROBLEM 8:

A and B are the inventors of a process having to do with the production of sheet metal, and applications for letters patent covering the process were filed in their names prior to June 15, 1932. On that date an indenture was drawn creating a trust which had for its purposes the acquisition and holding of the applications and the resultant letters patent, the development of the process and the distribution of royalties received from manufacturers operating under the patents. The administrators named in the indenture were A and B and their fees for services rendered in this capacity were fixed at \$10.00 per month each, commencing July 1, 1931.

On June 16, 1932, C, D, E and F purchased shares of beneficial interest in the trust at a price of \$25.00 per share as follows:

C	250 shares	E	25 shares
D	30 shares	F	95 shares

Exclusive right and title to the applications and the resultant letters patent were acquired by the trust from A and B for \$10,000.00, payable \$5,000.00 in cash and \$5,000.00 in 200 beneficial-interest shares. The cash and shares were paid to A and B in equal amounts.

On July 10, 1932, the trustees negotiated a \$3,000.00 loan due in one year with interest at the rate of 5% payable in advance, the proceeds to be used in the development and perfection of the process and in defraying such legal and other expenses as might arise in connection therewith. The loan was repaid at maturity.

Development of the process was completed prior to December 31, 1932 and the total amount of development and legal and other expenses incurred by the trust on this account was \$6,566.35.

Through the efforts of a promoter, licenses were granted to several operators shortly after the completion of the development work. The licenses provided for the payment of royalties by the operators on the basis of \$2.00 per ton of production under the licenses, and the trustees contracted to pay the promoter for his services at the rate of \$.25 per ton.

The combined output under the patents of all licenses in the four six-month periods ended December 31, 1934 follows:

<i>Six Months Ended</i>	<i>Tons</i>
June 30, 1933	7,230
December 31, 1933	10,433
June 30, 1934	16,187
December 31, 1934	15,208

Royalties due the trustees under the licenses were received by the trustees monthly.

On June 30, 1933 and at the end of each six-month period thereafter, the trustees distributed dividends to the beneficial owners of the trust, as follows:

June 30, 1933	\$10,200.00
December 31, 1933	17,400.00
June 30, 1934	28,308.00
December 31, 1934	27,600.00

Prepare an analysis of trustees' cash account showing the total amount of dividends distributed to each of the beneficial owners and the balance of cash on hand at the end of each of the six-month periods beginning July 1, 1932 and ending December 31, 1934.

PROBLEM 9:

The Smith Coal Company, on July 1, 1929, inaugurated and guaranteed an informal employees' savings-investment plan under the terms of which any employee could subscribe for shares of the company's 5%-preferred stock at par. Shortly thereafter, subscriptions of \$2,700,000 were received and warrants were issued evidencing the subscriptions. Payment was made by monthly payroll deductions over a five-year period ending July 1, 1934. Any subscriber who wished to withdraw at any time during that period could receive in cash the amount he had paid in (subscriptions of \$550,000 were thus canceled), but those who completed their payments by July 1, 1934 were to receive in addition to their stock a 30% cash bonus representing a contribution by the company.

On June 1, 1933, an amended plan was perfected whereby all the continuing original-plan subscribers relinquished their subscription warrants for warrants under the new plan and received immediately a cash bonus equal to 30% of the face of their subscriptions. A total of \$630,000 was paid on that date by the company to subscribers who had completed the payment of their subscriptions. The new warrants gave the holders the option of receiving:

(1) At any time prior to July 1, 1938 their pro rata share of the stock in the fund, or

(2) At any time after July 1, 1938 either (a) their pro rata share of the stock in the fund as at July 1, 1934, or (b) cash in the amount of 70% of their original subscriptions paid in.

You are requested to certify to the consolidated balance sheet of the Smith Coal Company and subsidiaries and the parent company's balance sheet. Show how you would reflect the fund, if at all, on each of the two balance sheets. Give reasons for your decision to include or exclude the fund on each balance sheet.

An after-closing trial balance of the fund at December 31, 1934 follows:

<i>Debits</i>	
Cash	\$ 50,000
Subscriptions	2,150,000
Securities	2,195,000
	<hr/>
	\$4,395,000
	<hr/>
<i>Credits</i>	
Subscribers' warrants	\$2,150,000
Subscribers' payments on subscriptions	2,130,000
Paid-in surplus	15,000
Earned surplus	100,000
	<hr/>
	\$4,395,000
	<hr/>

The trial-balance caption, "Securities," represents the cost of 27,000 shares of Smith Coal Company's 5%-cumulative-preferred stock purchased prior to July 1, 1934, the quoted market value being \$50 per share at December 31, 1934. "Subscribers' payments" include partially paid subscriptions of \$30,000, all belonging to former employees ineligible to participate in the new plan. "Paid-in surplus" represents the excess of the company's cash contributions over bonus

payments. "Earned surplus" consists of the excess of dividends received over expenses paid.

PROBLEM 10:

The Stanley Implement Company reported net taxable income for the calendar year 1934 of \$150,000.

Compute the estimated excess-profits tax payable for 1935, if any, after giving consideration to the following transactions recorded in 1934:

- | | |
|---|----------|
| (a) Dividends paid to stockholders | \$80,000 |
| (b) Interest earned on Cook County Poor Relief Bonds | 25,000 |
| (c) Loss realized on sales of Ajax Building Corporation bonds | 42,000 |
| (d) Income tax for 1934 | 20,625 |
| (e) Dividends received | 45,000 |

The value declared on the company's capital stock at December 31, 1933, as reported on its 1934 capital-stock tax return, was \$800,000. Present estimates are that taxable net income for 1935 will be \$132,000.

Minnesota Probate Code

The Minnesota 1935 Legislature passed a bill establishing a Probate Code. In some quarters the idea has been given out that the provision therein relating to the appointment of auditors by the probate court is a new feature. It is referred to not because it is new but because it is a feature that is not found in most State laws and yet it is one that would be valuable to the public in any State. As a matter of fact, the 1927 Legislature passed Section 8717—1-2-3-4-5-6, which granted identical powers enumerated in Article II, E, Sections 22-3-4, which read:

E. AUDITOR

§ 22. Appointment

The court may appoint an auditor in any matter involving an annual, partial, or final amount due on a claim or an offset thereto. Such appointment may be made with or without notice and on the court's own motion or upon the petition of the representative or of any person interested in the estate or guardianship. (G. S. 8717-1, 8717-2, 8717-3.)

§ 23. Powers

The auditor shall have the same power as the court to set hearings, grant adjournments, compel the attendance of witnesses and the production of books, papers, and documents and to hear all proper evidence relating to such matter. He shall report his findings of fact to the court. (G. S. 8717-4, 8717-5.)

§ 24. Compensation

The auditor shall be allowed such reasonable fees, disbursements, and expenses as may be determined by the court and shall be paid by the representative as expenses of administration or guardianship or by the person applying for such audit as the court may determine. (G. S. 8717-6.)

The Auditor at Common Law

(Continued from page 535)

the auditor depends on the basic principles of common sense and business. Common sense is a constant factor, but modern business is a swiftly changing factor, and the ramifications of a great proportion of modern businesses are multitudinous and complex.

The *Royal Mail Case* demonstrates the need of some method of safeguarding the public, but there must be some solution of the problem, other than by overloading an already overloaded profession with further responsibilities.

It is contended, in all sincerity, that the solution is not to be found by increasing the responsibilities of auditors, but by limiting them in a very definite manner, and having the limits known and appreciated by all concerned.

If this statement is correct, the next move must come from the profession as a whole.

“The Forgotten Lawyer”

by R. ALLAN STEPHENS of the Springfield, Illinois, Bar, Secretary Illinois State Bar Association

(Excerpts from an Address delivered before the Conference of Bar Association Delegates at Los Angeles, July 15, 1935)

A NUMBER of years ago, the dean of one of our larger law schools asked me to look up one of their most promising graduates. I found him to be a man who had been successful in making contacts with the people of his community, but his office and the description of his practice, as he gave it to me, indicated the story of a fine young lawyer who was slowly, but surely, going to seed as a member of the legal profession. Yes, he said, he belonged to his local, State, and the American Bar Association, but he had never attended the sessions of any of them, except an occasional dinner of his own bar.

Returning to the Bar Association office, I looked up his record and found he had been prompt in the payment of his dues, but had never attended an annual meeting or served on any of the committees. Apparently he was as unknown to our organization as we were to him. In other words, from our point of view, he was one of the “forgotten” members of the organized bar, and since meeting him, I have met many, many other “forgotten” lawyers. I have found them in large metropolitan offices; many were found struggling to make it by themselves in large cities, their desires to give to their profession dulled by the necessities of keen competition, and I have met them in the small villages where they have said they would like to participate in bar association activities, but had wondered, “What is there in it for me?”

It occurs to me that some small contribution may be made by a discussion of ways and means to make more effective that member in our ranks whom I have designated as “the Forgotten Lawyer.”

In scanning through the annual reports of the bar associations, I find this to be a common problem. For example, the President of one of our most successful southern State Bar Associations in his annual address, given in May, 1934, referred to the rude awakening he had been under-

going during his administrative year in finding so many capable outstanding lawyers of his State who were not members of his State Bar Association because of their belief that it performed but little, if any, real effective service as an organization of the lawyers of that State. He went on to express the thought that he had found no lack of interest in the common need of lawyers nor any unwillingness on the part of these non-members to become members of an organization which would undertake to serve the lawyers of the State as a whole.

The story of the last quarter century of the various State Bar Associations’ activities to reach “the Forgotten Lawyer” indicates three distinct classes or types of effort. First, efforts to interest him through knowledge or advertisement of the association’s work; second, efforts to make him realize, through services rendered to him, the value of association membership; and third, efforts to interest by getting him to share in its activities.

The annual meeting illustrates the first class. It was the most important, and in many years, the sole activity of the early Bar Association. For a very few this effort was successful, but it resulted in attracting only a small group of members who had to return each year for more enthusiasm, when they again listened to speeches by distinguished members of the bar, then gave no further thought to bar association work until call for the next annual meeting.

The second class of efforts, or the furnishing of services to the members of a bar association, is of decidedly recent origin.

We rented headquarters in an office building, employed a clerk, and notified all the members that they now had a representative in the State capital to attend to any errands that they might have in the departments or the appellate courts of the

State. It was an uphill job to get "the Forgotten Lawyer" to understand what this meant for him. He had never heard of a bar association doing such a thing. It was not one of its objects. As the news of this service became known among the members of the association, the business of the central office increased, until today the daily average is over a dozen different services to the members, covering almost every conceivable line of lawyers' needs. Arrangement of appointments with heads of various State departments is a quite common service, as is likewise the service of notices on State officials.

The effect of this type of service on "the Forgotten Lawyer" was reflected some time ago when one of them wrote that he had never attended a bar association meeting, but all of the dues he ever had paid, or, would ever pay to the association were well repaid to him when the association was able to straighten out a misunderstanding he had been having with the head of one of the State departments.

Two of the most difficult problems bar associations are confronted with are those of

(a) Grievance against the members of the bar, and

(b) Unlawful practice of the law.

In the matter of grievances, for years our "Forgotten Lawyer" was well justified in saying that the bar association did nothing to clean up the profession of its unworthy members. Our Illinois procedure was cumbersome and impractical, but after years of education and agitation, our Supreme Court entered what is now known as "The Order of April 21, 1933," which designated the Grievance Committee of the State association and one of its metropolitan local associations as Commissioners of the Supreme Court, with power to make investigations from time to time concerning practices of attorneys at law, which tend to defeat the administration of justice, or to bring the courts and the legal profession into disrepute, and to report to the court their conclusions on fact and law concerning complaint, answer and proof.

After this order was entered, the matter of handling grievances became much simpler. A hearing by the Grievance Com-

mittee, a review by the Board of Governors, a report filed in the Supreme Court, and the case is ready for final hearing and disposition upon the report of facts and law. With the development of this system is coming a growing confidence of "the Forgotten Lawyer" in bar organizations.

Unlawful practice of the law is to a large extent a local matter, and our State organization a number of years ago decided that it could best devote its efforts to propaganda among local bar associations to induce them to take care of their own situations. In the beginning, however, there were certain principles of State-wide application which had not been clearly defined by our courts, and the State association sponsored the suits to establish what is practicing law by banks, trust companies and laymen.

There are a large number of cases, which local bar associations feel they can not handle, but which the State association, by its influence alone, can bring to a successful conclusion.

Keeping Fit

Dr. Thomas D. Wood of Columbia University has prescribed the following twelve rules which, if followed, he believes will increase the percentage of individuals reaching the age of 65. Statistics now show that 36 out of every 100 die from preventable diseases before they reach 65 years of age. It might not be a bad idea for accountants to add these twelve rules to the daily dozen exercises which they all (should) take:

1. Eat less, chew more.
2. Smoke less, breathe more.
3. Ride less, walk more.
4. Bundle less, bathe more.
5. Worry less, work more.
6. Hurry less, read more.
7. Idle less, play more.
8. Talk less, think more.
9. Go less, sleep more.
10. Waste less, give more.
11. Scold less, laugh more.
12. Preach less, practice more.

STATE SOCIETY NEWS

FLORIDA

A reorganization meeting of the Tampa Chapter of the Florida Institute of Accountants was held at the Thomas Jefferson Hotel at noon on August 9. Officers elected were: President, Joseph A. Sweeney; Vice-President, Russell S. Bogue; Secretary, Manuel Montenegro; Treasurer, Hubert V. Foy.

INDIANA

The first Year Book of the Indiana Association of Certified Public Accountants was issued as of September 1, 1935. The book includes complete alphabetical and geographical indexes of membership, the Indiana C.P.A. law, association by-laws, past officers, committees, and reference to the American Institute of Accountants and The American Society of Certified Public Accountants. Copies may be obtained from the Secretary, 510 Guaranty Building, Indianapolis.

KANSAS

A special meeting of the Kansas Society of Certified Public Accountants was held on June 29, 1935, at the Broadview Hotel, Emporia.

The meeting was called to order by President H. W. Gifford at 10:30 A. M. and after transacting various important matters of business, Arnold R. Jones, State Accountant, gave a talk on the new Municipal Accounting Act.

A resolution was passed requesting the State Board of Administration to change its rules for administering the C.P.A. law to require for admission to the accountancy examination a certificate of graduation from a college or university requiring four years standard college work; said modified requirement to become effective on and after June 30, 1940.

MICHIGAN

The Central Chapter of the Michigan Association of Certified Public Accountants held its annual meeting on June 19, 1935, at the Kellogg Hotel in Battle Creek. Officers were elected as follows: President, Roy Kaywood; Vice-President, David Sutherland; Secretary-Treasurer, Alpha Campbell; Directors, Edwin Stanton and Lloyd Juengel.

The Western Chapter held its annual meeting at Spring Lake on June 13, 1935, and elected the following officers: President, Raymond F. Knape; Vice-President, Glynn F. Blanchard; Secretary, Wesley DeLong; Treasurer, Frank E. Leander.

MINNESOTA

The Minnesota *Certified Public Accountant* for August has as its leading editorial an exceedingly interesting one on "Stop, Look, Listen." The underlying thought of the editorial was expressed in its closing question, "Are we dissipating a heritage for a mess of porridge?" The editorial was based on some recent advertising uses which have been put to certificates issued by C.P.A.'s. Certificates may be utilized in such a manner as to raise the question in the minds of the public as to whether their real value is of much worth, the commercial value having been so prominently brought to the front.

WASHINGTON

The August issue of *The C.P.A.*, published by the Spokane Chapter of the Washington Society, is entirely devoted to accounting matters related to the Federal Social Security Bill and the related payroll tax.

In Memoriam

HARRY E. CRABLE, C.P.A. (Colo. No. 162, June 24, 1927), of Pueblo, Colorado, passed away on May 27, 1935.

Mr. Crable had conducted an independent accounting practice in Pueblo for a number of years. He was a member of the Colorado Society of Certified Public Accountants and of The American Society of Certified Public Accountants.

JOSEPH HAAG, C.P.A. (New York No. 168, June 29, 1901), of New York City, passed away in October, 1934.

Mr. Haag was born in New York City October 28, 1853, and was educated in private schools and academies. For more than half a century he was in the service of the City of New York, having been Commissioner of Accounts, chief bookkeeper and chief accountant in the Department of Finance, and Assistant to the Mayor.

He was a member of the New York State Society of Certified Public Accountants and of The American Society of Certified Public Accountants.

WILLIAM E. POOLE, Jr., C.P.A. (Indiana, 1926; North Carolina, 1933; Wisconsin, 1933), of Chicago, Illinois, died on May 25, 1935, after an illness of several weeks.

Mr. Poole had been in public accounting practice since 1920 and had been a member of the firm of Chesnutt, Murphy and Poole, Certified Public Accountants, of Chicago, since 1925. He served with the United States Navy from May, 1917, to May, 1918, having received an honorable medical discharge for disability incurred in line of duty. He was a member of the Illinois Society of Certified Public Accountants, the Indiana Association of Certified Public Accountants, the North Carolina Association of Certified Public Accountants, the American Institute of Accountants and The American Society of Certified Public Accountants.

RANDOLPH K. OGLE, C.P.A. (North Carolina No. 136, August, 1920), of Washington, D. C., died of a heart attack on August 26, 1935, at Ocean View,

Virginia, where he and his wife had been vacationing. He was stricken while on the beach and died before medical aid could be summoned.

Mr. Ogle had been an Examiner for the Federal Trade Commission since 1918. He was a charter member of The American Society of Certified Public Accountants, holding Membership Certificate No. 6.

M. E. J. PAPKE, C.P.A. (Illinois No. 503, 1924; Indiana No. 456, 1923), of Chicago, Illinois, passed away on May 12, 1935.

Mr. Papke had been a practicing accountant in Chicago for many years and was a valued member of the Illinois Society of Certified Public Accountants, the Indiana Association of Certified Public Accountants, the American Institute of Accountants and The American Society of Certified Public Accountants.

He is survived by a niece in New Jersey and by a brother and a sister in Germany.

LAWRENCE F. ORR, C.P.A. (Indiana No. 72, 1915), died at his home in Indianapolis, Indiana, on August 24, 1935, following a prolonged illness.

Mr. Orr, who at the time of his death was chief deputy examiner of the Indiana State Board of Certified Accountants, had been associated with the State Board for twenty-three years, serving as chief examiner from 1923 to 1933. He was born in Columbus, Indiana, fifty-four years ago. He was an alumnus of Butler University and of Benjamin Harrison Law School.

He was an honorary member of the Indiana Association of Certified Public Accountants.

J. W. R. BRADFORD, C.P.A. (Kentucky No. 16, August 1920; California No. 209, 1921; North Carolina No. 189, 1921; Oklahoma No. 136, 1923), of Cincinnati, Ohio, died on April 17, 1935.

Mr. Bradford was prominent in accounting circles for many years. He served as a member of the Kentucky State Board of Accountancy from 1920 to 1926. He was a charter member of The American Society of Certified Public Accountants.

CERTIFIED (?)

BY CHARLES WEISSINGER, C.P.A., Philadelphia, Pa.

THE meanings of words change from one period of time to another. They are a record of man's travels and wars, his occupations and civil history, his morals and moods, his food and feelings. In some instances it takes a half a century for such a conversion to take place, but the rapid changings of the last two decades have hurried some of the words along much more rapidly. During this time the meanings of common, everyday words varied in their meanings and many of them became antiquated just as man's education and knowledge change his vocabulary to meet the new conditions. It is peculiar that few words in our language rise in grandeur. Once their meaning is altered their prestige seems to vanish and they sink lower and lower in philological circles, finally becoming repulsive and obsolete.

The meaning of one word in which public practitioners are interested has become greatly impaired. It is the word "Certified."

This declaration is submitted to the members of the profession to stimulate further thought on the subject. Surely if they realize what change has taken place, some remedy will be found in the not far distant future based upon mature deliberation on the part of those who take such matters seriously.

The solution undoubtedly lies in the abolition of the word certified. Most likely by prescribing a thorough course of study and practice for future entrants into the profession by becoming, for example, a Bachelor of Science in Commerce, interned for a prescribed number of years, probably two or three, to some accounting house in public practice, by agreement to serve for the required time with a view to learning the practical side of accounting and auditing. His preceptor to be bound by agreement to instruct him and give him every opportunity to acquire the knowledge as quickly as the young man or woman can absorb and assimilate it. All to lead to a degree of Master of Science in Commerce,

or other appropriate term, and perhaps even to a Doctor's degree.

In general better qualified certified public accountants will be the result if educational prerequisites to C.P.A. examinations are increased to include educational degrees signifying graduation from an accredited accountancy course in a recognized college or university.

At the time that the word certified (public accountant) was adopted it was undoubtedly the best term that could have been selected. That it was good is proven by the use to which commercialists have put it to recommend their products.

The purposeful intention of the word was not to emphasize superlative claims of the merit of goods and wares in such exaggerated statements as appear in the advertisements in magazines and newspapers. Neither was it intended to use it in cartoons.

The original meaning was to testify in writing concerning one or more facts. For example, the judges certified documents to verify them. The accountants use the word in the proper sense, but as time goes on a doubt will attach to it because of the current commercial usage.

A plan will have to be devised to take care of those who are in practice as certified public accountants and also those who have so far advanced that it would be unfair to heap new conditions upon them. After taking care of these cases the prescribed courses and requirements could be made to begin several years hence. Some such provision has already been made by at least one of our states.

The present-day use of the word certified instead of indicating a professional atmosphere signifies commercialism because we have,

Certified	plaster board
"	milk
"	sanitation
"	laundry
"	gasoline

Certified multigraph clips
" orange sticks
" air
" beer
" climate
" floor boards
" soup
" criminals

The last mentioned one was a cartoon which appeared in the *Evening Public Ledger*—Philadelphia, Tuesday, June 19, 1934.

It was headed "The Modern Certified Criminal." It depicts a skulking figure, equipped with flash light and revolver, sneaking up a dark areaway. Backing him up, so to speak, in his villainy, was a kite-like appendage to his coattail, each wing carrying a label Arrest, Bail, Conviction, Parole, Arrest, Bail, Suspended Sentence, Arrest, Bail, Conviction, Parole, etc., etc. The whole impressed one with the fact that even criminology could be certified to.

The downward grade of the use of the word will vitally affect the interests of the profession in the future. If you are professionally minded, these points have probably already suggested themselves to you.

A higher standard of education will not of its self abolish the word certified, but it will lead to an academic degree to take its place. This line of education should be determined between the national and State bodies on the one side and the various universities and colleges which teach commercial subjects on the other. So that the curriculum will correspond as it applies to accounting with the requirements for the practice of law and of medicine.

This should redound to the benefit of the profession as a whole and the day should not be far distant when business and financial interests will not look upon the services of the certified public accountant, be his name and appellation at that time whatever it may, as an expense but as a positive, worth while investment.

It will also tend to create a justifiable distinction between bookkeeping, which we will say is a recording of the history of the business transactions, and accounting and auditing which, for the purposes of this article, we will say is an interpreta-

tion of this historical record with a view to determining the results and forecasting the tendencies of the particular business and in some cases comparing it with that of the industry as a whole and the verification of the classification and integrity of the historical records.

Sir James Martin

Sir James Martin, of London, an internationally known member of the accountancy profession, died August 21, 1935, while on a holiday trip.

Fifty years ago he was one of the group that founded the Society of Incorporated Accountants and Auditors. He was president of the society in the year 1922-1923 and at the unanimous request of its membership he accepted the office of president for the period of the society's fiftieth anniversary celebration this year.

It is said that he took great pride when in 1907 the diploma of the society was pronounced by the High Court of Justice of England to be a certificate indicating reliability and integrity. This decision followed a four-day trial at the close of which the court held that the members of the society had the exclusive right to the designation Incorporated Accountant.

Sir James was a visitor to the United States at the time of the first Congress on Accounting held at St. Louis in 1904, representing his society as a delegate. He was vice-president at the fourth International Congress held in London in 1933, and many of the American accountants had the pleasure of meeting him on one or the other or both of these occasions.

Like other leaders of the profession, especially in England, he occupied several positions having to do with public affairs. He was a member of the Wrenbury Committee on Companies, as well as of the Greene Committee on Companies. The reports of these two committees formed the basis of the Companies Acts of 1928 and 1929. He also served as a member of the Departmental Committees on Tribunal Arbitration and Accounting Methods in the Public Service. The last public appointment held was as one of three members of the London Passenger Transportation

Arbitration Tribunal, which appointment came in 1933. He served as a member of the council of the London Chamber of Commerce, occupying the positions of chairman and president. He was also vice-president and member of the Executive Committee of the Association of British Chambers of Commerce, representing them as a delegate to the Congress of Chambers of Commerce of the Empire, held in Capetown in 1927.

Civil Service Examination

The United States Civil Service Commission has just announced two examinations in which accountants may be interested. In both cases applications must be filed with the Commission not later than September 24.

One is for an administrative officer in charge of grants to states, to be administered by the Children's Bureau under the Social Security Act. This position will pay \$4,600 a year, with the regular deduction of 3½% toward a retirement annuity. Applicants must not have reached their 53rd birthday, save as preference may be had by reason of military or naval service. For this position candidates must have had at least ten years of reasonably successful experience of a public administrative nature, including service in administrative branches of Federal or State Government, as responsible head for the financial and budget activities of a State or Federal agency. Except for the requirement of a year's experience in charge of the financial and budget activities of a State or Federal agency, college work completed which majored in business administration, accounting or economics, may be substituted year for year for four years against the requirement.

The other examination is for vacancies in the positions as special consultant (accounting). The salary will be \$5,600, subject to the same requirements as to deduction and age. Applicants must hold a certificate as a C.P.A. and in addition thereto must show that subsequent to the receipt of such certificate they have had not less than seven years of high-grade profes-

sional accounting experience. Application blanks may be obtained from the secretary of the Board of U. S. Civil Service Examiners at any first-class post office.

The Graduate School of Business of Stanford University has just issued a 20-page monograph, No. 1, of Business Research Series, on "Operating Results of California Retail Stores for the Year 1934." Forty-eight stores cooperated in the enterprise.

Announcements

Haskins & Sells announce H. Brooks Davies, C.P.A., as resident partner of the firm in Denver, with offices in the Denver National Building, Denver, Colorado.

Harry L. Sophrin, C.P.A., announces the removal of his office to 245 Fifth Avenue, New York City.

W. N. Waller, Jr., and H. W. Woodhouse announce that they have acquired the interest of C. M. Cluverius in the firm of Waller, Cluverius & Woodhouse. Their accounting practice will be continued under the name of Waller & Woodhouse, Certified Public Accountants, Wainwright Building, Norfolk, Virginia.

Joseph H. Feinberg, C.P.A., has removed his offices to 1503 Lincoln Building, 60 East 42nd Street, New York City.

State Board News

Announcement is made of the appointment of Edward Dallas Farmer, C.P.A., of Indianapolis, as chief deputy examiner of the Indiana State Board of Accounts, to succeed the late Lawrence F. Orr.

WANTED

CERTIFIED accounting firm, many years established, will purchase a small or large accounting clientele in New York City or vicinity, for cash. Address Box K-316, THE CERTIFIED PUBLIC ACCOUNTANT.

Fourteenth Annual Meeting

THE AMERICAN SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

MUEHLEBACH HOTEL, KANSAS CITY, MO.

September 30, October, 1-3, 1935

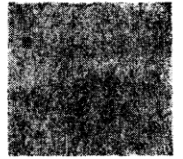
OUTLINE OF PROGRAM

MONDAY		—Registration
	<i>Morning</i>	1934-35 Directors State Society Officials State Board Members.
	<i>Afternoon</i>	—Golf and Bridge State Society Officials State Board Members.
	<i>Evening</i>	—1935-36 Directors Informal Entertainment
TUESDAY	<i>Breakfast</i>	—State Society Officials
	<i>Morning</i>	—Representative Convention
	<i>Afternoon</i>	—Opening Program
	<i>Evening</i>	—Entertainment
WEDNESDAY	<i>Breakfast</i>	—State Board Members
	<i>Morning</i>	—Governmental Accounting Program
	<i>Afternoon</i>	—Accounting Practice Program
	<i>Evening</i>	—Entertainment
THURSDAY	<i>Breakfast</i>	—American Society Officials
	<i>Morning</i>	—Office Procedure Program
	<i>Afternoon</i>	—Federal Government Practice Program
	<i>Evening</i>	—Banquet

SPECIAL PROGRAMS FOR LADIES EACH DAY

See Local Ticket Agent for Special Railroad Rates

Burroughs



*can help you serve
your clients*



Burroughs offers such a comprehensive line of Adding, Billing, Calculating and Accounting machines—in so many styles and sizes—that the accountant can select exactly the right machines to meet any accounting or figuring requirement. Burroughs machines also provide the latest developments in speed, simplicity and ease of operation.

In carrying out their ideas, accountants find it advantageous to familiarize themselves with the remarkable results obtained from Burroughs machines.

Business men in all lines appreciate being informed as to what these machines can do and as to the economies they represent.

The local Burroughs office will be glad to co-operate with you . . . to show you any Burroughs machine and to demonstrate its application to any type of accounting work.

BURROUGHS ADDING MACHINE COMPANY
Detroit, Michigan

Burroughs

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

20 Cents

The

October, 1935

CERTIFIED PUBLIC ACCOUNTANT

Official Organ of The American Society of Certified Public Accountants

The Accountants Publishing Co.

In This Issue

	PAGE
<i>One National Organization</i> —WILLIAM D. MORRISON	579
<i>Auditing One's Self</i>	580
<i>The Accountants Digest</i>	581
<i>Another Professional Year</i>	581
<i>John B. Tanner</i>	581
<i>Practice Before U. S. Board of Tax Appeals</i> CHARLES M. TRAMMELL	582
<i>The AAA Act</i>	588
<i>General Audit Practice and Procedure</i> —HERMAN M. KNOELLER	589
<i>Wisconsin Regulatory Law</i>	593
<i>The Kansas City Meeting</i>	600
<i>A Single National Organization</i>	604
<i>Board of Directors Meetings</i>	611
<i>Questions and Answers Department</i> —STEPHEN GILMAN	613
<i>Talking Shop</i> —LEWIS GLUICK	615
<i>Our Readers' Forum</i>	618
<i>Wee Bits on Accountancy</i> —LOUIS S. GOLDBERG	619
<i>C. P. A. Examination Questions—Commercial Law</i>	620
<i>Report of Secretary</i>	624
<i>Reports of Committees—</i>	
<i>Relations With State Organizations</i>	626
<i>Natural Fiscal Year</i>	626
<i>Cooperation With The National Association of Credit Men</i>	627
<i>State Legislation</i>	627
<i>Calendar Simplification</i>	628
<i>Classification and Certification of Accountancy Services</i> ..	628
<i>Endowment Fund</i>	629
<i>Governmental Accounting</i>	631
<i>Financial Statements</i>	635
<i>News Behind the News</i> —PAUL MALLON	636
<i>Notes</i>	636
<i>State Society Notes</i>	639
<i>Announcements</i>	640

The **RESIDENT** *Final Examination* **PLAN**



Upon request, we will gladly mail our booklet, "How to Learn Accounting," to anyone who is interested in obtaining full information regarding I.A.S. training. Address the International Accountants Society Inc., 3411 South Michigan Avenue, Chicago, Illinois.

INTERNATIONAL
ACCOUNTANTS SOCIETY, INC.

A Division of the

ALEXANDER HAMILTON INSTITUTE

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

AN outstanding feature of the course in Accounting offered by the International Accountants Society, Inc., is the Resident Final Examination, which each student must pass before his diploma of graduation is issued.

The Resident Final Examination Plan was inaugurated in April, 1925, and every student enrolled for the ninety-lesson I.A.S. Course since that time is required, after finishing the work on his course, to take an examination held under the personal supervision of a Certified Public Accountant (or, if a C. P. A. is not available, an Attorney at Law) either in the student's home city or in an adjacent city.

Just prior to the date of examination, the necessary examination questions and all blank forms for the candidate's working sheets, schedules, statements, and other papers required for the solutions, are mailed to the supervising C. P. A., as a confidential communication between himself and the I. A. S.

The examination material is handed to the student at the beginning of the examination period. It is the supervisor's obligation to be certain that the student completes the examination without having access to textbooks, notes, or any outside help.

When the examination is finished, the papers are turned over to the supervisor who forwards them to the International Accountants Society, Inc., in Chicago, where final judgment as to the student's eligibility for a diploma is made by the Active Faculty.

The same examination is never given the second time in the same city.

The Resident Final Examination Plan assures prospective employers that I. A. S. graduates possess a thorough, tested knowledge of Accounting.



**"FACTS COME FASTER
WITH POWERS PUNCHED CARD
METHODS"**

**SAYS
THE PENN MUTUAL LIFE INSURANCE
COMPANY OF PHILADELPHIA**

"**S**earching out the intricate facts which a large insurance company must have instantly at its finger tips is reduced to a matter of minutes with Powers," says Mr. William A. Law, President of The Penn Mutual Life. "We



MR. WILLIAM A. LAW, President
THE PENN MUTUAL
LIFE INSURANCE CO.

consider our tabulating equipment the most up-to-date available.

"For instance, we have a closer control over installment payments and annuities today than ever before. We can complete the monthly analysis of our country-wide expense in less than 24 hours. We can determine at any time and with unusual

speed and accuracy the individual production records of our thousands of men in the field. These are but a few of the operations for which we use our Powers installation."

The Penn Mutual Life Insurance Company is only one of hundreds of businesses where Powers Punched Card equipment brings definite savings and increased management effectiveness.

On Sales, Powers Machines bring complete day-to-day analysis, giving cost per sale, volume compared to quota, results by salesmen, by item. Predicts style trends, helps uncover loss items, reduces depreciation and inventory.

On Production, Powers Machines control cost, improve accuracy of material records, give better control of payrolls.

On Collections, Powers control often gets monthly statements into mail ten to twelve days earlier, greatly improving cash position.

Powers Machines are leased. Thus you get an improved system of accounting without capital investment, and punched card control as an added plus value.

Our representative will gladly make a complete study of your present procedure and recommend the Powers machines which experience has proved will save you money. Because Remington Rand makes all types of office equipment, he is in a position to give you impartial advice.

Telephone Remington Rand today for a demonstration of Powers machines in use in your own city. Or write Remington Rand Inc., Buffalo, New York.

**Remington Rand
POWERS
Accounting Machines**

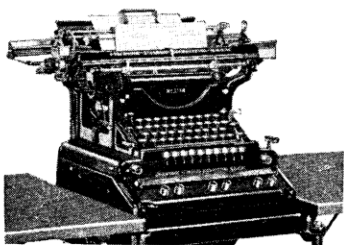
OK...it's from Remington Rand

Listen to the "March of Time" every night except Saturday and Sunday at 10:30 E.S.T. Columbia Network.

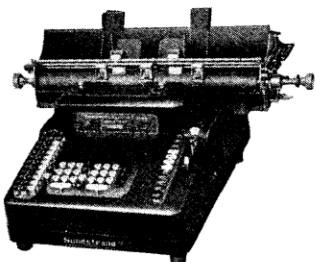
WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

NOT JUST ONE TYPE OF MACHINE...

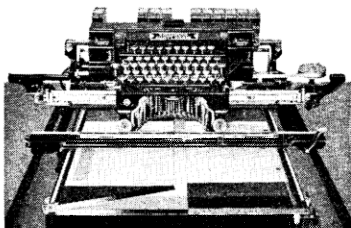
3 Types!



Underwood Model
Underwood Elliott Fisher Accounting Machine



Sundstrand Model
Underwood Elliott Fisher Accounting Machine



Elliott Fisher Model
Underwood Elliott Fisher Accounting Machine

● An Underwood Elliott Fisher Accounting Machine always fits the requirements of the job...it is never necessary to fit the job to the machine. The reason is that Underwood Elliott Fisher makes three distinct types of machines with a wide variety of models in each.

Whether you have a machine accounting problem or not...whether you are interested in machine accounting or not...you are invited to inspect the complete Underwood Elliott Fisher line, if for no other reason than that of keeping yourself informed on the latest machine accounting developments.

• • •

Underwood Elliott Fisher maintains a library of Machine Accounting Applications that is available for the use of all accountants. You are invited to make free use of it.

Accounting Machine Division

UNDERWOOD ELLIOTT FISHER COMPANY

*Accounting Machines...Typewriters...Adding Machines
Carbon Paper, Ribbons and other Supplies*

342 Madison Avenue, New York, N. Y.

Sales and Service Everywhere

**UNDERWOOD
ELLIOTT FISHER**
ACCOUNTING MACHINES



• • Every Underwood Elliott Fisher Accounting Machine is backed by nation-wide, company-owned service facilities.

Underwood Elliott Fisher Speeds the World's Business

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

The Certified Public Accountant

DEVOTED TO THE INTERESTS OF THE C.P.A., HIS CLIENT, AND THE PUBLIC WELFARE

VOL. XV

October, 1935

No. 10

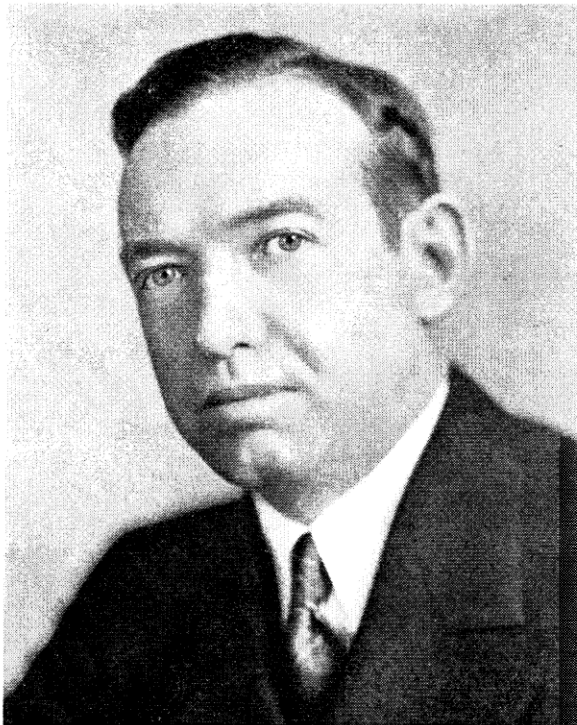
Editor: DURAND W. SPRINGER. Published monthly by The Accountants Publishing Company. *Publication office:* Candler Building, Baltimore, Maryland. *Editorial office:* National Press Building, Washington, D. C. All communications for publication should be addressed to the Editorial office, National Press Building, Washington, D. C. *Subscription price:* A year of 12 issues, \$2.00; twenty cents a copy. Entered as second-class matter, January, 1934, at the post office at Baltimore, Md., under act of March, 1879.

"Of a truth, men are mystically united: a mystic bond of brotherhood makes all men one."—CARLYLE.

The President's Page One National Organization

BY WM. D. MORRISON, C.P.A.

MUCH has been said in the past few months by the members of the two National Accounting Organizations, and much discussion has taken place by Certified Public Accountants who are members of neither



WILLIAM D. MORRISON, C.P.A.

organization, regarding the advisability of one national group. The governing bodies of the two organizations have devoted time and energy to carefully considering the possibility of a consolidation, and the Committees on this subject of the two organizations have worked untiringly to formulate a plan of procedure whereby a consolidation might be effected. Leaders in the Certified Public Accountants' profession from all over our nation were called into conference at Atlantic City, and as a result of their careful deliberations, they unanimously expressed their views that a single National Organization could best serve the inter-

ests of the accountancy profession in the United States.

There is an increasing trend that associations of the various crafts, trades, manufacturers, and professions voice their views in unity before National and State governmental bodies, which greatly increases the desirability of a single national association.

It is vitally necessary that the plan of procedure relating to the general principles looking forward to but one national organization, must beyond a doubt be carefully considered. Also, they must be worked out so satisfactorily that there will be a harmonious meeting of the minds of the members of the present two organizations before the consolidation is attempted. Otherwise, the newly created association may find its members divided as to the general principles, with the disastrous result that another newly organized national body will enter the field with the practical views expressed by the conferees at the Atlantic City meeting.

The constitution and by-laws of the suggested consolidated group should be given careful thought and they should be acceptable to both present memberships as upon this foundation the new organization will succeed or fail.

It is difficult to determine accurately whether or not an economic waste is being committed at this time because of some possible duplication in efforts looking forward to a pronounced advancement for the adoption of higher standards in the profession.

And again it is possible that two organizations are necessary, working to some extent from different viewpoints, to bring before the profession the vast amount of information necessary to keep its members informed.

In conclusion, if the two national organizations cannot iron out their differences in advance, it would then logically appear that there is justifiably a place for both of the present organizations.

Auditing One's Self

AS illustrating the necessity for keeping a careful tab on possible legislation it may be cited that a State legislature, just recently adjourned, attached to the general appropriation act a provision that none of the appropriations made shall be used for the purpose of employing auditors excepting persons who were regularly and continuously employed by the State. A letter received from a C.P.A. in that State calls attention to the fact that this is another illustration of Government entering into competition with its citizens. The member of the profession feels that it is a slap at the profession.

Perhaps it was so intended. But on the other hand it is more likely to be an acknowledgment on the part of the State government that an independent audit might reveal conditions which would not look well in print; that the political conditions under which the State was function-

ing were such as that it was advisable to keep the information within the political family.

Such a provision violates the fundamental principles of professions. No good physician trusts himself to prescribe for a serious illness in his own family. He wants an outsider who can prescribe for the patient with a mind that is not swayed by filial relationships. No good lawyer undertakes to defend himself in a court case where much is at stake for fear that he will devote more time to the personal side of the case than to the legal side. No State or governmental unit should be allowed to audit itself. The underground ramifications in any organization, whether business or governmental, are always present. Certainly in the business world an officer of a corporation or an employe would not be as apt to discover errors in work which he had done or which had been done under his direction, as would an outsider who approached the audit from an unbiased standpoint and with no knowledge of past transactions.

The Accountants Digest

The latest addition to accounting literature appeared with the September issue of a quarterly bearing the above title. The Editor is Leland L. Briggs, Associate Professor of Economics, University of Vermont, Burlington, Vermont, articles from whom have appeared in these columns from time to time. Its aim is to present in compact form the substance of outstanding articles selected from leading accounting journals of the English speaking world. The first issue, 102 pages, 7¼ x 10½ in size, reviewed 120 articles from 48 periodicals, 11 of which were foreign.

Another Professional Year

Practically all professional organizations, regardless of their fiscal year schedule and entirely independent of the calendar year, utilize the fall season for inaugurating a new forward movement. Probably three-fourths of the State C.P.A. societies have already had one meeting. It is suggested that during the entire development of the accountancy profession there has never been a time when State societies should give as much constructive study to its possible future as now. The day for laissez faire organizations is past.

John B. Tanner

It becomes necessary for the second time this year to record the passing of a past-president of The American Society. The Kansas City meeting was the first one Jack had missed. Each day we heard from him. He passed away on October 7. In the next issue we shall comment on the work of our departed friend.

Practice Before U. S. Board of Tax Appeals

by CHARLES M. TRAMMELL, Member.

I APPRECIATE the opportunity of appearing before this organization of certified public accountants. As a Member of the U. S. Board of Tax Appeals, before whom most of you are admitted to practice, it is a pleasure for me to have this opportunity of contact with you. As lawyers, from time immemorial, have been considered officers of the court, you as practitioners before the Board occupy the same position. There is a mutual benefit for practitioners and the Members of a tribunal before whom they practice to know each other better and it is fit and proper, as well as beneficial, for each to know something of the problems of the other. Aside from the personal pleasure of being with you, which well repays me, I personally receive a great benefit from this opportunity to come in closer contact with you.

The government has in the course of its history set up many independent agencies, commissions and bureaus for the purpose of administering particular statutes. The Bureau of Internal Revenue has been set up for the purpose of collecting revenues under our income tax system and in general administering and carrying into execution the provisions of internal revenue legislation. With the development of the income tax and other internal revenue, it has become one of the great bureaus in our governmental system. The Board of Tax Appeals is an independent agency, and the only agency in the executive branch of the government ever created by the government for the purpose of standing between a governmental bureau and the public. It stands between bureaucratic action of the government and the taxpaying public. In all other governmental bureaus, boards and commissions, if a person is aggrieved over their action, the courts are the only recourse. The Bureau of Internal Revenue as a tax-collecting agency is zealous in the collection of revenues, and properly so, but

a substantial part of its action is subject to review by the Board. The Board is an independent, impartial agency, not concerned with the machinery of the collection of revenue, but with the proper determination of deficiencies in taxes according to law and the facts. It is only zealous in the correct findings of fact and in the proper interpretation of the law as applied to those facts. The collection of the revenue, after a judicial determination of its correctness, is left to the Bureau. The existence of such an impartial, independent agency, to which a taxpayer has the right to appeal from the action of the Bureau of Internal Revenue, in and of itself has a tendency to check, retard or prevent arbitrary, bureaucratic action on the part of the collecting agency. This is true even regardless of the actual decisions of the Board whether they be for or against the government, as I will later explain.

In this connection you might be interested in a brief summary of the work of the Board. From July 1, 1927, to June 30, 1935, and I use that period because it is only from July, 1927, that our records have been so kept that the particular figures may be easily segregated, the total amount of deficiencies asserted by the Commissioner involved in proceedings before the Board was \$1,645,340,791.88. Of that amount the Board by decisions has allowed deficiencies in the amount of \$500,421,383.97. Up to the end of the fiscal year 1935 the Board rendered 11,293 separate decisions, that is, not counting docket numbers but actual cases. This does not include cases where deficiencies were stipulated. The total number of cases by docket number disposed of is 72,152 up to August 31, 1935. The Board has been reversed by the U. S. Circuit Courts of Appeals in 704 cases and modified in 133 cases. These court records, however, apply only up to the end of the fiscal year 1934 and do not contain figures as to 1935. The Board,

however, has been reversed by decisions of the U. S. Supreme Court in only 25 cases. Six cases were modified by the Supreme Court by decision; seventeen cases were modified by denial of certiorari, that is, cases where the Circuit Court of Appeals had modified the Board decisions and the Supreme Court denied certiorari. 34 cases were in effect reversed by the Supreme Court by denial of certiorari from the Circuit Courts of Appeals. I have not referred to the number of cases in which the government and the taxpayer have stipulated the amount of the deficiency or that there was no deficiency. I will say, however, that the deficiencies asserted by the Commissioner have been reduced by his stipulation in a much larger percentage of cases than where the Board has decided the cases. I do not attribute this reduction of deficiencies by the Commissioner through stipulation to any liberality in policy of settlement on the part of the Commissioner or any of his agents or officers. Most likely the taxpayers or their representatives are somewhat at fault when large deficiencies have been asserted and by stipulation lesser amounts have been agreed upon. The fact that the Commissioner, himself, in a very large percentage of the cases before the Board has agreed that he has been in error indicates either that the Commissioner has not had a previous opportunity to fully investigate the matter or that the taxpayer or his representative has not supplied the evidence which was later supplied when the case was stipulated. In many instances if the evidence which is later supplied had been presented at an earlier stage, most likely the deficiency would have been smaller or not asserted at all. In any event, except for the existence of the Board of Tax Appeals those asserted deficiencies, which were later admitted to have been incorrect, as well as in those cases where the Board has held that the deficiency has been incorrect, would ordinarily have been assessed and collected and the only relief the taxpayers would have had, except for the Board, would have been to pay the tax and sue for refunds in the courts, or wait for protracted hearings after the tax had been paid before the Bureau on claim for refund. If the Commissioner admits the deficiency is erroneous, refunds undoubt-

edly would have been allowed through court procedure if not administratively. However, the payment of the tax would have created a hardship in many instances upon the taxpayers. There would have been a great many more bankrupt industries, more people thrown out of employment and conditions might have been materially worse. The refunds might not have been any material advantage to an industry two or three years after it had been put into bankruptcy on account of the tax erroneously collected. To prevent this hardship was one of the objects of the creation of the Board. In this connection, the Committee on Ways and Means, while the Revenue Act of 1924 was before the House, stated as follows:

The right of appeal after the payment of the tax is an incomplete remedy, and does little to remove the hardship occasioned by an incorrect assessment. The payment of a large additional tax on income received several years previous and which may have, since its receipt, been either wiped out by subsequent losses, invested in nonliquid assets, or spent, sometimes forces taxpayers into bankruptcy, and often causes great financial hardship and sacrifice. These results are not remedied by permitting the taxpayer to sue for the recovery of the tax after this payment. He is entitled to an appeal and to a determination of his liability for the tax prior to its payment.

The creation of the Board was admittedly an experiment, the first experiment in the history of the world where a taxpayer has been given the right to have his tax liability judicially and finally determined before he has been required to pay the tax. The question will some day, probably soon, have to be answered whether this experiment has proven successful, whether in the future it can. Whether up to now the Board has properly fulfilled the purposes of its creation is a matter to be judged by its history—I express no opinion on the subject—but whether it can in the future do so depends in some degree, at least, upon the taxpayers and their representatives on the one hand, and the Bureau of Internal Revenue and its representatives on the other. The less consideration given cases in the Bureau and the less effort

made therein by taxpayers' representatives to dispose of cases throws more work on the Board and intensifies the Board's problems.

I am not here to in any sense defend the Bureau of Internal Revenue where an agent has been so zealous in making a record for himself in the collection of taxes either to obtain a high efficiency rating or for his own pride, that he has acted arbitrarily. Most of you undoubtedly know of instances of this kind, or at least what appeared to be, but these occurrences are the exception and should not be the cause of the taxpayer's representative assuming that all action of the Bureau is arbitrary and capricious and that proper evidence of facts fairly presented will not be equally fairly considered.

While one of the purposes of the Board is to stand between the government and the taxpayer and to prevent arbitrary and bureaucratic action on the part of the tax-collecting agency, in my opinion, many instances of what appears to be arbitrary action on the part of the Bureau of Internal Revenue are due to the fact that in a great many cases it does not have proper cooperation between the taxpayer and its representatives to enable the Bureau to properly ascertain the correct tax. There are many instances where the government's representatives are given the impression, rightly or wrongly, that material facts are being withheld and they must satisfy themselves that they have all the facts before they will settle the controversy. In many instances if the evidence submitted to the Board or to the courts in the trial of the case had been submitted to the Commissioner while the matter was being considered by him, it would not have been necessary to have an appeal before the Board or to try the case in court. There have been instances when a case was being tried before me where government counsel would make the statement, after the conclusion of the case, that if the evidence which was introduced had been available to him before the trial he would not have contested the case. There are many instances, also, where if there had been a complete presentation of the case in the Bureau of Internal Revenue the case would have been properly and correctly deter-

mined there. I would think, therefore, that it would be very helpful to the Bureau of Internal Revenue as well as to the Board, in a considerable number of cases, if the taxpayer's representatives would make a more thorough presentation of the case at the source. In my opinion, this would have a tendency to relieve the Board of a great deal of work and thereby enable it to act more promptly in connection with cases in which, after full presentation of the facts and the law in the Bureau, no satisfactory settlement can be reached.

In many cases the Commissioner does not have an opportunity through his officers or agents to go thoroughly into the matters before sending out a notice of deficiency. This may be due to the fact that the statute of limitations is about to expire and the taxpayer or his representative has not cooperated or presented facts when an opportunity was afforded for that purpose prior to sending out a notice of deficiency, and when all facts are presented after an appeal has been taken, and a fuller consideration given the matter by both parties, a satisfactory agreement can be reached which is embodied in a stipulation which the Board accepts and enters its order making it effective. In a great many other cases the Commissioner and the taxpayer are able to stipulate at the hearing all the facts or a portion of them. The Board will always accept a stipulation of facts, but not a stipulation of law.

As officers of the Board I think it is proper for us to discuss any matters by which the work of the Board may be expedited and its work better carried on. We need your cooperation as well as the cooperation of the Bureau of Internal Revenue. In this connection I would like to call your attention to the fact that the Bureau of Internal Revenue has in recent months been sending out to the large centers of population experienced trial lawyers for the purpose of instructing the revenue agents in the fundamental principles of the law of evidence in order to enable them to better and more properly prepare and consider cases. I have thought that it might be helpful to you if I discuss with you briefly some of the fundamentals of evidence. The government has considered that it would be beneficial to instruct its revenue

agents along this line and I think it would be equally beneficial to Certified Public Accountants to have the benefit of discussions along the same line.

The law of evidence as we know it today has grown up throughout the ages. It has grown and developed with the growth and development of substantive law. It is not a rule set up for the purpose of embarrassing counsel or litigants or hindering the trial of cases but has been proven to be the best, and in the long run, the only safe and satisfactory way of bringing out the real true facts in a case. I think that a knowledge of the fundamental principles of evidence will be helpful to accountants in the preparation of their cases. It will be of benefit from the time of the filing of the return until the case is finally closed. For instance, in the preparation of returns there are many instances when items are known with a reasonable degree of certainty will give rise to controversy and it is known that proof will be required to substantiate the facts. In the preparation of a return when the facts are fresh in the memory it would be well to determine what facts may properly be presented and what legal evidence there is to support them and who can furnish that evidence. If the facts tested by rules of evidence are gathered together at that time it will be of great help when a contest does arise to present the legal evidence in support of the facts. If the facts cannot be sustained by evidence which will be acceptable and it is known at that time that they cannot be, then the return can be made accordingly. There is certainly no use relying upon facts, or what you think are the facts but which cannot be proven. Again, in the presentation of a case before the revenue agent or before the Bureau of Internal Revenue, if you have the legal evidence to support the facts claimed and have it in the first instance, a great deal of time, expense and worry can be saved and tax controversies more expeditiously disposed of so that if the taxpayer has to pay he will know it, and if he does not have to pay it he will be relieved of the anxiety at an early stage. He will then earlier know how to arrange his finances for business purposes and carry out plans, and on the other hand, if the tax is properly due and

collectible, the government can more expeditiously collect its revenue. Lack of preparation of a case based upon legal evidence has been the cause of much delay in the settlement of tax controversies.

One of the duties of an officer of the Board as well as an officer of the court, and I refer to those who practice before the courts and before the Board, is to aid in the expeditious disposition of cases and to aid in the proper disposition by furnishing evidence to substantiate facts. By analogy those who practice before the Bureau of Internal Revenue occupy the same position in their practice as attorneys do before the courts. They have their duties and responsibilities with respect to the Bureau. The Commissioner of Internal Revenue and his officers and agents are the representatives of all the people of the United States. As a rule the officers and representatives of the Bureau are men of honesty and integrity, seeking only the truth to which the people of the United States are entitled. The first essential duty on the part of any representative of any taxpayer is to abide strictly and scrupulously by the highest rules of ethics. The government should never be given any reason to doubt any statement or to question the bona fides of anything said or done in the course of your handling a case from the beginning to the end. The principal duty of a taxpayer's representative is to thoroughly present the facts on the questions involved, and then if the facts raise a question of law, to thoroughly and exhaustively study the question and not simply make an argument based on your own opinion. Without a research and analysis of authorities, an argument is usually not helpful. When a case is thoroughly presented to the proper officials of the Bureau it may well be that a satisfactory determination may be reached in the first instance which would save the taxpayer prolonged expense and uncertain controversy about his taxes and save the government prolonged hearings, time and expense and save work before the Board and the courts. Frequently what is considered to be an arbitrary determination by the Commissioner is made because he is unable to ascertain the facts presented to him by acceptable evidence. An increasing number of taxpayers' representatives de-

termine in their own mind that it would be futile to present proper evidence to the Bureau, thinking that the case would be decided adversely in any event and prefer to go directly to the Board of Tax Appeals to settle the controversy. By not presenting the matter to the Bureau and thus enabling the Commissioner to finally determine the facts and the law, it may well be that such taxpayer's representatives may save, in some instances, duplication of presentation of evidence in the event a satisfactory settlement is not reached, but this necessarily increases the burden of the Board as well as the Bureau. It does not give the Commissioner an opportunity to consider the facts or hear the arguments on the legal points which are presented to the Board. Thus many cases are unnecessarily presented to the Board and by appeal to the courts. In order to enable the Board and the appellate courts to properly function to better carry out the purpose in the creation of the Board it requires cooperation of taxpayers and their counsel as well as the tax-collecting agencies of the government. In preparing a tax case for presentation or in trying it, a knowledge of what will be recognized as competent evidence is essential. While in the trial of a case before the Board which involves the presentation of evidence, I think that a lawyer should be taken into the case for the purpose of proper presentation and the making of the record, still an accountant should have a knowledge of the fundamentals of evidence in order to properly prepare the case and to assist in its presentation in cooperation with the lawyer. The relationship between lawyers and accountants I discussed before the Texas State Society in Dallas last October and this question has been discussed by others. I will not deal with that subject except to emphasize the importance of a general familiarity with evidence.

Rule 39 of the Rules of Practice of the Board provides that the rules of evidence applicable in courts of equity of the District of Columbia shall govern the admission or exclusion of evidence before the Board. Since these rules will be applicable before the Board and the courts on appeal they should be kept in mind in the preparation of the case, even in the filing of the

return, and obviously they have to be given due consideration in the preparation of the case for trial. It is very important to know what evidence will be required to establish a certain fact, whether the witness is qualified to testify, what documents will be considered competent evidence. You will be confronted with these questions in every case. In order to answer these questions I will discuss with you briefly the fundamental principles.

The burden of proof is in general upon the taxpayer. This is provided by the rules of the Board and has been sustained by court decisions, but this is not a new rule. It is a fundamental principle of law that a person alleging a fact must establish it by evidence. There are two exceptions made in the statute, however, with respect to the burden of proof. One is in the case where fraud is charged the burden of proof is on the government to establish the facts upon which fraud is based. The other exception is in the case of transferee proceedings where the statute provides that the burden of proof shall be upon the government to show that there was transferee liability. When this is shown the amount of the liability, if any, determined in the notice of deficiency is presumed to be correct. In all criminal cases, however, the burden of proof is always upon the government to show defendant's guilt beyond a reasonable doubt. In civil cases the degree of proof required is less. A decision in a civil case should be based upon a preponderance of the evidence instead of evidence beyond a reasonable doubt.

In addition to the statutory provisions as to the burden of proof, the rules of the Board provide that where the government asserts at or prior to the hearing an increased deficiency over that asserted in the notice of deficiency that the burden of proof is upon the Commissioner to establish the fact upon which it is based. The Board rules also provide that when the answer of the respondent asserts affirmative relief that the burden is upon him to establish the facts.

There are, however, certain facts which do not require proof. They are those facts of such general public knowledge that the judicial body hearing the case will take notice of them. These are such as geo-

graphical facts, historical dates and events, constitutional and statutory provisions of the jurisdiction, published judicial decisions, and like matters.

There are other facts which are presumed to be true and which do not require any proof to establish them in the first instance. Presumptions in a legal sense arise from rules of law, usually of statutory origin.

Presumptions have gained recognition as matters of public policy, or to facilitate judicial procedure. They do not constitute evidence, but sometimes vitally affect the necessity for or introduction of evidence. Mr. Justice Field in *Lincoln v. French*, 105, U. S. 614, said:

Presumptions are indulged to supply the place of facts; they are never allowed against ascertained and established facts. When these appear, presumptions disappear.

And in *Mockowick v. R. R. Co.*, 196 Mo. 550, it is said:

Presumptions * * * may be looked on as the bats of the law flitting in the twilight, but disappearing in the sunshine of actual facts.

In the field of tax law a familiar example of the rebuttable presumption is the presumption of prima facie correctness which attaches to the determination of a deficiency in income or estate taxes by the Commissioner of Internal Revenue.

A party to a case or controversy, or his authorized representatives, may make admissions during the trial which obviate the necessity of testimony, and these are admissions or declarations which a party to the proceeding may have made at any time against his interests which may be introduced in evidence at the trial, but self-serving declarations are never admissible. For this reason income tax returns are not admissible in evidence by the taxpayer to prove the truth of statements therein contained, but are admissible when offered by the Commissioner as an admission against interest by the taxpayer.

Evidence is any matter of fact from which an inference might fairly be drawn as to another fact. Every fact which is the basis of an inference is evidence and

is termed an "evidentiary" fact, while the fact which is inferred from it is called the "ultimate" or "principal" fact. The law of evidence relates to the use of "evidentiary" facts.

Evidence, strictly speaking, naturally falls into two classifications, that is, oral testimony of witnesses and documentary evidence. These again subdivide under numerous headings, some of which we will notice briefly, such as hearsay evidence, expert opinion evidence, the best evidence, secondary evidence, etc.

A statement, either oral or written, made by a person not a party to the cause and in respect of a matter not within the personal knowledge of the witness, is not admissible to prove the truth of the disputed fact. Such statements are hearsay, and as such not as a general rule admissible. However, there are certain well-recognized exceptions to the hearsay rule. These include, among others, matters pertaining to ancestry, dates of birth and death, family relationships, market quotations, contemporaneous entries in books of account kept in the regular course of business, where such entries are made by a party to the litigation or under his supervision. To be admissible, books of account, contracts and other documents must, of course, first be properly identified and authenticated.

On the other hand, documents generally constitute evidence of high quality and probative force, but they are not conclusive and cannot operate to change the facts. Notwithstanding written evidence, the true facts may be shown if they have not been correctly recorded. For example, a deed executed under seal and with the utmost formality may be shown to be in fact a mortgage; or the actual consideration for the transfer may be shown to be otherwise than as stated in the deed. The cost or value of property and other details of business transactions may be shown to have been in fact different from those recorded in books of account.

It might be said that the first rule of evidence is the "best evidence rule." This rule merely means that the best evidence available must be produced. A written document is always the best evidence of its own contents, and must be produced unless

it has been lost or destroyed, or otherwise satisfactorily accounted for. If it has been lost or destroyed, or is in the possession of the adverse party and he refuses to produce it, or for some other sufficient reason it cannot be produced by the party who desires to prove its contents, then secondary evidence, either oral or written, may be offered. Generally, oral evidence which tends to vary the terms of a written instrument is not admissible. Where the parties have expressed their agreement in writing, they may not thereafter in a legal proceeding undertake to modify the writing, but if the entire agreement is not set out in the writing, it may be shown by parol evidence.

In general, the opinions of witnesses are irrelevant and not admissible in evidence. Witnesses must confine their testimony to matters of fact within their knowledge and not give their conclusions and opinions with reference to such facts. Conclusions or opinions are to be drawn or formed by the court or the jury. This general rule, however, like most rules of a general nature, is subject to certain exceptions. In some matters, because of the unusual or technical nature of the question involved, opinion testimony is the only practical method of proof. In such cases the opinions of qualified experts in the particular field are admissible in evidence.

The admissibility of testimony depends upon its relevancy, materiality and competency. The pertinency of proposed proof must rest on common sense rules of logic. Evidence is relevant when it tends to establish a fact in issue, but is irrelevant when its tendency is otherwise or is to establish some fact not in controversy; it is material when it is of such nature as to be entitled to weight in reaching a decision, but is immaterial if it does not logically lead directly or indirectly to the inference that the ultimate fact in controversy, is true or false, and it is competent when it is of a type that is admissible.

Testimony may also be introduced in the form of depositions.

Where the necessary evidence is available by the exercise of reasonable diligence, failure to produce it is inexcusable

and the taxpayer may and often does in such situations fail to obtain the relief to which he would otherwise be entitled. But the final result is the same whether the taxpayer fails to prove the essential facts through negligence or because of the impossibility of getting the evidence. The Supreme Court of the United States recently said (*Burnet v. Houston*, 283 U. S. 223):

We cannot agree that the impossibility of establishing a specific fact, made essential by the statute as a prerequisite to the allowance of a loss, justifies a decision for the taxpayer based upon a consideration only of the remaining factors which the statute contemplates. * * * The impossibility of proving a material fact upon which the right to relief depends simply leaves the claimant upon whom the burden rests with an unenforceable claim, a misfortune to be borne by him, as it must be borne in other cases, as a result of failure of proof.

I have discussed only in a most general way the high spots in the law of evidence and its importance in the successful handling of your problems. I think the subject of sufficient importance, however, to warrant a study and to become more familiar with in your work, whether you are before the Board or not.

The AAA Act

In commenting on the amendments made to the Agricultural Adjustment Act by the last Congress, it was noted that among the amendments passed by the Senate, being No. 157 in the total list of 163, was one which permitted attorneys in the higher salary brackets to be appointed by the President and confirmed by the Senate outside the classified Civil Service regulations, but did not extend the same provision to other professional groups. The American Society presented a brief to the Conferees outlining the theory that all professional groups should be treated alike. The bill as passed did not contain that provision.

General Audit Program and Procedure

by HERMAN M. KNOELLER, LL.B., C.P.A., Milwaukee, Wisconsin

FOR some considerable time in the past, I have regularly read the official organ of The American Society of Certified Public Accountants and I must say that many of the articles published by you are not only interesting but highly instructive for members of both the legal and public accounting professions. Being both a lawyer and a certified public accountant, I often compare the two professions and note very distinctly the lack of uniformity in the practice and procedure of the accounting profession. It can never be hoped to reduce the learned professions, i. e., the Law, Medicine, Theology and now also Accounting, to an exact science as Mathematics, etc. Nevertheless, the legal profession has made great strides towards uniformity by the creation of committees composed of outstanding members in its profession devoted to the exclusive purpose of codifying and making uniform the substantive law. The enactment of the Uniform Negotiable Instrument Act, Uniform Conveyance Acts, and the recent publication of excellent volumes covering the Restatement of the Law of Contracts, Law of Agency, Law of Torts, etc., are but a few examples of the splendid progress now being made towards uniformity in the legal profession. In Wisconsin the Supreme Court has been granted complete power to enact standard rules of court covering pleading and practice before the inferior and the appellate courts of the State. It will thus be seen that the day is not very far off when the practice of the law will be freed of all nonsensical and technical principles abounding with exceptions, restrictions, and provisos. The verbose, unintelligible, legal phraseology of the common law will be supplanted by a plain and concise statement of the facts constituting a cause of action without unnecessary repetition.

So also in the practice of Theology, noble efforts have been made towards the unification of all Christian Churches. At first

blush and thought, it would seem so utterly improbable and well-nigh impossible for ministers and their flock possessed of diametrically opposed religious beliefs to join in convention for the purpose of establishing a Universal Christian Church. Still this has been done and salutary results have followed. The bigotry and the religious fanaticism of the past have been supplanted by a modern spirit of tolerance and liberalism. This is well proven by the universal opposition of all people, regardless of race, color or creed to any present-day religious persecution.

Likewise in the medical profession great Medical Centers and Laboratories have been established about the country. Moreover, the members of the medical profession have solidified themselves by the formation of powerful and wealthy organizations. If you read the recent publication in the "Time" magazine concerning the American Medical Society, you will recall that the society earned a profit (over and above all operating expenses) amounting to almost \$1,000,000.00 during the year 1934, from the publication of medical journals and the procurement of membership fees. The doctors of today jealously guard and highly value their medical franchise. They are ever on the alert for the apprehension of any person practicing or attempting to practice medicine without a license. The State Medical Boards have employed special investigators to obtain evidence against suspicious persons who illegally invade the medical profession and have steadfastly and vigorously prosecuted said persons. This procedure naturally results in uniform and effective action and cooperation among its members.

It is, therefore, very expedient, fitting and proper, in my estimation, that the members of the accounting profession take immediate steps towards the formation of committees to unify, standardize and simplify the principles of accounting and to formulate rules and regulations covering

its practice and procedure. Every member of The American Society of Certified Public Accountants should constitute himself a committee of one appointed for the purpose of strengthening and fortifying the C.P.A. law of his State, and obtaining proper legislation restricting the practice of public accounting to only those who have properly qualified themselves for it as evidenced by a State license or C.P.A. certificate. The State Board of Accountancy in each and every State should be just as vigilant in the apprehension and vigorous in the prosecution of unlicensed and unqualified public accountants as the State Medical Board or the Bar Association. The clear-cut issue today confronting every accountant is whether or not his C.P.A. certificate is anything more than a plumber's license or, in short, is he in a profession composed of skilled and scientific members or is he simply engaged in a trade or business?

It was with the thought of uniform laws and principles of accounting running through my mind, and struggling for utterance, that I have written this letter to you. I fervently trust and earnestly hope that you will exert your best efforts and space in your official organ to incite and excite the members of this profession towards the creation of a committee for the unifying, codifying, standardizing and simplifying the principles of accounting. It has been done in other professions and it certainly can be done in the accounting profession. Questionable practices, doubtful procedure, and highly disputable methods of handling certain accounting facts and figures, abound in your profession. The need is urgent and the time is ripe for action.

In line with this thought and consonant with this spirit, I am enclosing herewith a copy of "Audit Program and Procedure" used by me during the course of my ten years' experience in the legal and accounting professions. I well realize that it cannot be adapted to each and every audit, but I do believe that it is sufficiently comprehensive to form the basis or guide for the construction of a special audit program covering any particular job. Amendments and modifications to the audit program submitted might very well be made and, when made, should be carefully considered and,

if found proper, incorporated therein so that we may finally reach a Uniform Practice and Procedure. In my estimation there is a great dearth of literature on this particular phase of accounting. The student, the candidate for the C.P.A. certificate and every practicing public accountant should welcome a condensed and complete uniform audit program and procedure that will stand the test not only of classroom examinations, State Board of Accountancy Examinations, but also the fire and cross-fire of examinations by attorneys before judicial tribunals.

*I. Definitions**

1. *A detailed audit* involves a verification of the majority of the transactions between two given dates, and covers a given period of time as distinguished from the financial condition as of a given date.
2. *A BALANCE SHEET audit* involves the verification of claimed assets and liabilities as of one given date—not a detailed examination of every expense and income account; the correctness of the net worth is primarily determined by a verification of all assets and liabilities, and the difference between them consists of the net worth; the auditor goes as far back into past financial history as seems necessary to satisfy himself definitely that the book records reflect the truth.
3. *A cash audit* refers purely to the cash transactions and is usually required when embezzlement is suspected, of course, a complete cash audit necessarily includes verification of accounts receivable, sales allowances and returns, notes, securities, etc.
4. An *investigation* deals only with certain phases of the accounting system; it does not necessarily result in financial statements of the usual type, whereas an audit is comprehensive and involves the preparation of Balance

*Some time ago an American Society Committee on Classification of Accountancy Services prepared a report in which a somewhat different classification of audits was made. It is suggested that the reader compare the report with this article.

Sheets and supporting financial exhibits and schedules. Investigations are usually required in cases of consolidations or mergers, or the sale or purchase of a business, or credit investigations.

5. A *periodic audit* is an audit where the entire work is done at one time.
 6. A *continuous audit* is an audit where the work is spread throughout the year and performed at different periods of time—always prepare comparative statements to aid in the formation of constructive business policies when performing continuous audits.
- II. *Mechanical Work in Audit Procedure*
1. Start with the trial balance of the books at the beginning of the period under review; this is usually the Balance Sheet of the previous year.
 2. Check these figures with the general ledger.
 3. Verify the items entered in all the journals used since the starting point (or cut-off), which will be the trial balance at the beginning of the period under review.
 4. Verify the correctness of the footings in all journals.
 5. Check the correctness of postings from the journals to the general ledger and the subsidiary ledgers.
 6. Examine ledger accounts for unchecked entries.
 7. Verify ledger account footings.
 8. Check the final trial balance against these verified ledger totals.
 9. Check marks should be placed before the amount checked, and are to be used as follows:
 - A) For footings—initials of man checking.
 - B) For postings—an ordinary check mark with a short tail parallel to the first stroke of the check (✓).
 - C) For vouching—a small “c” with a tail like the second stroke of an ordinary check mark (↵).
 10. Rules for Working Papers:
 - A) The first sheet of each set of working papers should be an index, properly arranging and classifying the papers.
 - B) The second sheet should contain

an explanation of the check marks used in the audit.

- C) The client's name should not appear on the papers, but each paper should bear:
 - a) The date on which prepared;
 - b) The date of the items recorded;
 - c) The engagement number or the serial number of the client;
 - d) The name of the accountant;
 - e) The descriptive title or the class of data recorded on the sheet;
 - f) The dollar sign (\$) should be consistently pre-fixed on all papers which are to be later copied.
 - D) A field notebook should be used in connection with each audit, in which may be noted data peculiar to the particular business that may be pertinent to the work.
 - E) Only one class of data should be placed on a sheet, even if only one item is to be recorded.
 - F) Exhibits should bear letters, and schedules should bear numbers; both should be prepared for report purposes, exactly as they are expected to appear in the report.
 - G) The general working paper should be divided into:
 - a) Trial balance columns;
 - b) Adjustment columns;
 - c) Adjusted trial balance columns;
 - d) Manufacturing columns;
 - e) Trading columns;
 - f) Profit and Loss columns;
 - g) Balance Sheet columns.
11. Rules for Postings and Footings:
- A) *Generally*, verification of postings and footings is of minor interest in Balance Sheet audits, especially where there is an internal audit and the postings and footings are verified and tested periodically.
 - B) *Postings*—Where one clerk takes care of all records, receiving and disbursing the cash, it is advisable to check all postings to the general ledger and to make test of a portion of the postings in

other ledgers. If a detailed audit of the accounts of a medium-sized concern is being made, the same procedure should be followed. In Balance Sheet audits, postings of the general ledger may be checked for one or two months, and short tests made of those in the subsidiary ledgers. (In Balance Sheet audits of very large concerns no check need be made of postings.) If possible, make verification of postings by checking from ledgers to books of original entry. After completing the check of all entries in the ledgers, scrutinize books of original entry to make certain that all entries have been checked. (Saliers' Accountants' Handbook.)

- C) *Footings*—It is impractical to set down definite rules as to the extent to which footings should be verified. Wherever possible, prove totals of any record which has been checked in detail against another record by comparison with totals in the other record. Where there is no system of internal check and a detailed audit is made, verify all totals of cash books and general ledgers, at least, and check those of the other record. Where there is a good system of internal check and a Balance Sheet audit is made, test of footings of the general ledger and cash book should be sufficient. (Saliers' Accountants' Handbook.)

III. Preliminary Work

1. Visit the plant or office and become acquainted with the physical aspect of the investigation.
2. Survey the accounting system and procure a list of all the books and records in use.
3. Obtain the names and statements of all bank accounts conducted.
4. Inquire as to the internal check system in force and the general accounting methods used, and make notes thereon as follows:
 - A) Locating weak points in the in-

ternal check.

- B) Watching for non-ledger liabilities.
 - C) When new assets are put on the books or old assets increased, guard against omission of off-setting liabilities.
 - D) Liabilities must not only appear in the original entries but must be reflected in the Balance Sheet.
 - E) Guarding against misleading descriptions on the Balance Sheet, frequently aging the liabilities.
 - F) Remembering the purpose of the audit as a material guide as to what should be sought.
5. Inquire as to the cost system in force and make notes thereon.
 6. Obtain company's classification of accounts.
 7. Obtain a trial balance of the general ledger, accounts receivable, accounts payable, notes payable and notes receivable.
 8. Obtain a statement of all operating cash accounts, particularly cash funds or department funds.
 9. Obtain a list of notes receivable, accounts receivable, notes payable and accounts payable, etc.
 10. Obtain company's copy of Balance Sheet, Profit and Loss accounts, and supporting schedules.
 11. Arrange for compensation on per diem or straight contract price, impressing client that it is incumbent upon him to present the books fully balanced, with footings inked in and the vouchers in good condition and properly arranged, and that the auditor should not be required to trace trial balance errors.

IV. General Ledger Work

1. Check opening balances from last audit report.
2. Check closing balances or trial balance of general ledger with trial balance presented.
3. Check all postings from:
 - A) Cash received record;
 - B) Check register;
 - C) Purchase record or voucher record;
 - D) Sales journals or summaries;

- E) General journal and operating journals;
- F) Notes receivable record.
- 4. Analyze necessary accounts.
- 5. Investigate for accounts such as taxes, etc.
- 6. Foot the ledger.
- 7. Draw off trial balance for both the beginning and the end of the period.

V. Minute Book and Stock Certificate Book

- 1. Read and take appropriate notes from:
 - A) The corporate charter;
 - B) The articles of incorporation, or partnership agreement;
 - C) The by-laws;
 - D) The minutes of directors' and stockholders' meetings;
 - E) The minutes for capital stock authorization and the price at which stock is to be sold, the terms of subscription, whether conditional or unconditional.
- 2. Ascertain if employees subscribed for stock and terms of subscriptions.
- 3. Verify stock certificate book with controlling account and watch for fraudulent issue of stock certificates.
- 4. Prepare schedules showing capital stock authorized, outstanding and unissued.

VI. Petty or Imprest Cash Record

- 1. Watch out for the following petty cash frauds;
 - A) False or raised vouchers for alleged payments;
 - B) Entering expense items twice, once in "Petty Cash" and once in "General Cash";
 - C) Cashier borrowing temporarily to make required balance and later extracting funds;
 - D) Inserting stale checks of long standing as substitutes for cash.
- 2. Count and list petty cash, unentered vouchers and accommodation checks; examine the latter two.
- 3. Count and verify all other working funds.
- 4. Check and verify transactions from date of Balance Sheet to date of count, examining vouchers and checks.
- 5. Verify all petty cash in transit.
- 6. Verify all cash, both on hand and in bank, together with notes and securities at the very same time.
- 7. Reconcile all cash funds to date of Balance Sheet.
- 8. Prepare Schedules.

(To be continued next month)

Wisconsin Regulatory Law

TO repeal sections 135.02 to 135.11; to amend the introductory paragraph of section 20.54, subsections (1), (3), and (5) of section 135.01; and to create subsections (4), (6), and (7) of section 135.01 and sections 135.02 to 135.13 of the statutes, relating to public accounting, making an appropriation, and providing a penalty.

The people of the State of Wisconsin, represented in senate and assembly, do enact as follows:

Section 1. Sections 135.02 to 135.11 of the statutes are repealed.

Section 2. The introductory paragraph of section 20.54 and subsections (1), (3), and (5) of section 135.01 of the statutes are amended to read: (20.54) (Introductory paragraph) All moneys received by the

Wisconsin state board of accountancy under * * * *chapter 135* shall be paid within one week after receipt into the general fund, and are appropriated therefrom for the execution of the functions of said board. Of this there is allotted:

(135.01) (1) The governor shall, within thirty days after the passage of this act, appoint three suitable persons, residents of the state of Wisconsin, who are hereby constituted a board by the name and style of the "Wisconsin State Board of Accountancy." The members of said board * * * shall be the holders of certificates as *certified public accountants* issued under the provisions of * * * *chapter 135* and shall hold office for a term of three years and until their successors are appointed

and qualified.

(3) The persons so appointed shall meet and organize within ninety days after their appointment and shall reorganize each year thereafter. A majority of said board shall constitute a quorum. They shall elect one of their number as president, one as vice president, and one as secretary, and said officers shall hold their respective offices for the term of one year and until their successors are elected and qualified. The affirmative vote of two members of said board shall be considered as the action of said board, except in actions relative to the revocation of any certificate * * *. In all such cases three affirmative votes shall be considered the action of said board.

(5) In addition to the other duties provided by sections 135.01 to * * * 135.13, inclusive, it shall be the general duty of this board to foster the standard of education pertaining to the science and art of accountancy, not only in its relationship to the interest of individual and organized business enterprises but in its relationship to the welfare of government, both general and local. This board shall endeavor, both within and without the profession of accountancy, to bring about a better understanding of the relationship of the science of accounting to the problems of public welfare.

Section 3. Three new subsections are added to section 135.01 and twelve new sections are added to the statutes to read: (135.01) (4) The board being charged with the administration of this chapter shall have power to design and use a seal, compel the attendance of witnesses, administer oaths, take testimony and receive proofs concerning all matters within its jurisdiction. It shall formulate rules for its guidance, not inconsistent with the provisions of this chapter and print the same for distribution. It may prescribe and publish reasonable standards of professional conduct and reasonable rules defining unethical practice for public accountants. No such standard or rule relating to professional conduct or unethical practice shall be adopted until the board has held a public hearing with reference thereto, notice of which shall be mailed at least sixty days before such hearing to every holder of a certificate issued under the provisions of

this chapter. No such rule or standard shall become effective until sixty days after its adoption by the board. Any person who shall have appeared at said public hearing and filed written protest against any proposed standard or rule may, upon the adoption of such standard or rule, obtain a review thereof by writ of certiorari brought in the circuit court of Dane county, in which proceeding the court shall pass upon and determine the reasonableness and the lawfulness of such standard or rule. Thereafter every person practicing as a public accountant in the state shall be governed and controlled by the rules and standards prescribed by the board.

(6) All certificates issued under the provisions of this chapter shall be signed by at least two members of the board. The board shall record its proceedings, list all certificates issued and revoked and shall maintain such other records as may be necessary or desirable and all records shall be open to the inspection of the public at the office of the secretary of the board.

(7) The board may make all needful rules and regulations regarding the conduct of the examinations or their character or scope, the method and time of filing applications for examination and their form and contents, and all other rules and regulations necessary to carry into effect the purposes of this chapter.

135.02 PUBLIC ACCOUNTANT, DEFINITION. A person shall be deemed to be in practice as a public accountant, within the meaning and intent of this chapter:

(1) Who holds himself out to the public in any manner as one skilled in the knowledge, science and practice of accounting, and as qualified and ready to render professional service therein as a public accountant for compensation: or

(2) Who maintains an office for the transaction of business as a public accountant, or who, except as an employe of a public accountant, practices accounting, as distinguished from bookkeeping, for more than one employer; or

(3) Who offers to prospective clients to perform for compensation, or who does perform on behalf of clients for compensation, professional services that involve or require an audit or certificates of financial

transactions and accounting records; or

(4) Who prepares or certifies for clients reports of audits, balance sheets, and other financial, accounting and related schedules, exhibits, statements or reports which are to be used for publication or for credit purposes, or are to be filed with a court of law or with any other governmental agency, or for any other purpose; or

(5) Who, in general or as an incident to such work, renders professional assistance to clients for compensation in any or all matters relating to accounting procedure and the recording, presentation and certification of financial facts.

(6) Every member of a partnership, and every officer and director of a corporation who, in such capacity, does any of the things enumerated in subsections (1) to (5) of this section, shall be deemed to be in practice as a public accountant.

(7) Nothing contained in this chapter shall prevent the employment by a certified public accountant, or by a public accountant, or by a firm or corporation, furnishing public accounting services as principal, of persons to serve as accountants in various capacities, as needed; provided, that such persons work under the control and supervision of certified public accountants or accountants with certificates of authority as hereinafter provided, that such employes shall not issue any statements or reports over their own names except such office reports to their employer as are customary and that such employes are not in any manner held out to the public as public accountants as described in this chapter.

(8) Nothing contained in this chapter shall apply to a practicing attorney, who, in connection with his professional work renders any accounting service.

(9) Nothing contained in this chapter shall apply to any persons who may be employed by more than one person, partnership or corporation, for the purpose of keeping books, making trial balances or statements, and preparing audits or reports, provided such audits or reports are not used or issued by the employers as having been prepared by a public accountant.

(10) Nothing contained in this chapter shall apply to holders of state-granted certified public accountant certificates from

other states who may be temporarily in this state on professional business incident to their regular practice in the states of their domicile, but with neither residence nor office in this state.

135.03 LICENSES. (1) No person may lawfully practice in this state as a certified public accountant either in his own name, or as an employe, or under an assumed name, or as an officer, member or employe of a firm or as an officer or employe of a corporation, unless such person has been granted by the board a certificate as a certified public accountant, and unless such person, firm or corporation, jointly and severally, has complied with all of the provisions of this chapter, including annual registration as herein provided.

(2) From and after December 1, 1935, no person may lawfully practice in this state as a public accountant either in his own name, or as an employe or under an assumed name, or as an officer, employe, or member of a firm, or as an officer or employe of a corporation, unless such person has been granted by the board a certificate of authority as a public accountant and unless such person, firm or corporation jointly and severally, has complied with all of the provisions of this chapter, including annual registration as herein provided.

(3) From and after December 1, 1935, no corporation and no officer or employe thereof may lawfully practice in this state as a public accountant either in his name, or as an employe or under an assumed name, unless such person and corporation has been granted by this board a certificate of authority as a public accountant and unless such person or corporation, jointly and severally, has complied with all the provisions of this chapter, including annual registration as herein provided.

135.04 QUALIFICATIONS FOR LICENSES AS CERTIFIED PUBLIC ACCOUNTANT. (1) The board shall issue a certificate as a certified public accountant to all persons who become entitled thereto under section 135.04 and 135.05 of this chapter.

(2) No certificate as a certified public accountant shall be granted to any person other than a citizen of the United States, or person who has in good faith declared his intention of becoming such citizen, who is over the age of twenty-three years and

of good moral character and (except as provided in section 135.05) who shall have successfully passed an examination in commercial accounting, governmental accounting, auditing, commercial law as affecting accountancy, and in such other subject as the board may deem necessary.

(3) Examinations shall be held by the board at least once in each year at such times and places as may be determined by it. The time and place of holding examination shall be advertised for not less than three consecutive days, nor less than thirty days prior to the date of such examination, in at least one daily newspaper printed and published in the city of Milwaukee and in at least one daily newspaper printed and published in the city of Madison. Each applicant shall also be notified by mail by the secretary of the board, at the address mentioned in the application, when and where such examination will be held. Such notice shall be mailed not less than thirty days prior to the date of the next examination.

(4) Applicants for a certificate as a certified public accountant must have completed at least a four-year high school course of study or have received an equivalent education, the value of equivalents offered to be determined by the board. Said applicants must have had at least three years' accounting experience equivalent to that of a senior in public practice, the efficiency of the experience to be judged by the board. The board may accept evidence of sufficient technical education in accountancy in lieu of one and one-half years of public accounting experience.

135.05 EXCEPTIONS. The state board of accountancy may, in its discretion, waive the examination of and issue a certificate to any person possessing the qualifications mentioned in subsection (2) of section 135.04, who:

(1) Is the holder of a certificate to practice as a certified public accountant issued under the laws of any other state which extends similar privileges to certified public accountants of this state, provided such certificate was issued upon due examination, and provided that the requirements of the law of such state are, in the opinion of the board, equivalent to the requirements of the law of this state;

(2) Is the holder of a certificate of

license to practice as a public accountant issued in any foreign country, provided such certificate was issued upon due examination, that the requirements regulating the issuance of such certificates are, in the opinion of the board, equivalent to the requirements of the law of this state and that such foreign country extends similar privileges to certified public accountants of this state.

135.06 CERTIFICATES TO PUBLIC ACCOUNTANTS WITHOUT LICENSES. (1) The board shall issue a certificate of authority to practice as a public accountant to each individual who applies before December 1, 1935, who presents evidence of good moral character satisfactory to the board, and

(a) Who furnishes satisfactory evidence he was maintaining an office in the state for the practice of public accounting on his or her own account at the date of the taking effect of this chapter; or

(b) Who for four years has been in responsible charge of accounting engagements in the State of Wisconsin as an employed member of the staff of a certified public accountant or a public accountant, or of a firm of certified public accountants or public accountants; or

(c) Who, in the opinion of the board, has had four years' experience equivalent to that specified in paragraph (b) of this subsection.

(2) The board in its discretion may issue certificates of authority to firms, provided, that the resident partner or partners and resident manager have received certificates as certified public accountants; or that the resident manager and resident partners of such firm have received certificates of authority under the laws of this state; or that the resident manager and each partner of such firm has received either a certificate as a certified public accountant or a certificate of authority issued under the laws of this state.

(3) The board may issue certificates of authority to corporations to practice as public accountants who:

(a) Upon passage of this act are corporations legally organized under the laws of this state, with power to practice as public accountants within the meaning of this chapter; and

(b) On or before December 1, 1935,

shall furnish satisfactory evidence to the board that such corporation was legally incorporated under the laws of this state at the date of taking effect of this chapter; and

(c) Whose manager and whose board of directors shall each have received either a certificate as a certified public accountant or a certificate of authority to practice as a public accountant as provided in this chapter.

(4) Whenever the manager and all of the directors of such a corporation in the practice of public accounting shall cease or shall fail to hold certificates as certified public accountants, or certificates of authority as provided in this chapter, the certificate of authority to the corporation shall become void and so be recorded by the board.

135.07 REQUIREMENTS FOR PRACTICE AS CERTIFIED PUBLIC ACCOUNTANT OR PUBLIC ACCOUNTANT. (1) Any person who has received from the board a certificate of his qualifications to practice as a certified public accountant, shall be styled and known as a "certified public accountant" and no other person shall assume to use such title or the abbreviation "C.P.A." or any other word, words, letters or figures to indicate that the person using the same is a certified public accountant. The terms "chartered accountant" and "certified accountant" and the abbreviation "C.A." are specifically prohibited to such other persons as being prima facie misleading to the public. Any person who has received from the board a certificate of authority, as herein provided, shall be styled and known as a "public accountant" and no other person, other than a certified public accountant, shall assume to use such designation or any other word, words, letters or figures to indicate that such person is entitled to practice as a public accountant.

(2) No person shall practice in this state as a certified public accountant or a public accountant, either in his name, under an assumed name, or as a member of a partnership, except as provided in subsection (10) of section 135.02, unless he shall have been granted a certificate by the board and secured a registration card for the current year. No person shall practice in this state as a public ac-

countant as an officer or director of a corporation engaged in the practice of public accounting, unless the corporation shall have been granted a certificate by the board and secured a registration card for the current year.

(3) Any partnership, which is entitled to practice as certified public accountants in this state or any other state, every resident member and resident manager of which is a certified public accountant of this state, after registering the partnership name with the board, may use the designation "certified public accountants" in connection with the partnership name. Any partnership, every member and resident manager of which is a certified public accountant of this state or any other state or holds a certificate of authority under this chapter, after registering the partnership name with the board, may use the designation "public accountants" in connection with the partnership name. An assumed name, in use prior to the taking effect of this chapter, may be used the same as a partnership name, provided the individual persons practicing as principals under that name hold certificates issued by the board and register the name with the board.

135.08 ANNUAL REGISTRATION CARD. The board shall, in December of each year, upon application made by any holder of an unrevoked Wisconsin certificate as a certified public accountant or an unrevoked Wisconsin certificate of authority as provided for in this chapter, issue a registration card, which card shall be good until December thirty-first of the next succeeding year, unless the said certificate shall sooner be revoked. A registration card shall also be issued to any partnership or corporation, upon application, which has complied with the provisions of this chapter. Interim registrations shall be issued to individuals, partnerships, and corporations who have complied with the provisions of this chapter within the year.

135.09 FEES. (1) Any person making an application for examination or certificate shall accompany such application with a United States money order or a certified check endorsed to the state treasurer in the sum of twenty-five dollars for application filed under section 135.04 or under subsection (1) of section 135.05, and in

the sum of fifty dollars for application filed under subsection (2) of section 135.05. Should such application be rejected by the state board of accountancy such check or money order shall be returned to the applicant, but immediately upon approval of the application such check or money order shall be deposited in the treasury of the state in the manner provided by law and shall be added to the general fund.

(2) Every applicant who shall be unsuccessful in the initial examination shall have the privilege of one re-examination without payment of an additional fee, if application for such re-examination be made within two years from the date of the first examination.

(3) All persons to whom an annual registration card is issued shall pay an annual fee or five dollars therefor. All partnerships or corporations to whom an annual registration card is issued shall pay an annual fee of ten dollars. Interim registrations shall be at the full rates as above specified.

135.10 DISCLOSURE OF INTEREST IN CORPORATION REPORTED ON. (1) A certificate of an accountant must disclose interest in corporation reported on:

(a) Whenever any person shall, as a certified public accountant, or public accountant, sign or certify any report, schedule or statement relative to the affairs of any corporation, association or copartnership, in which such person is financially interested, or by which such person is regularly engaged as an officer or employee, such signature or certification shall be accompanied by a specific statement setting forth the fact that such person is financially interested in, or is an officer or regular employee of such corporation, association or copartnership. If such person is both financially interested and an officer or regular employee, the statement shall cover both such financial interest and employment. In the case of a corporation holding a certificate of authority signing or certifying as above, the interest of any of its stockholders shall be disclosed.

(b) The board may make and enforce all necessary rules and regulations relative to the foregoing provisions and may determine upon the particular phraseology

necessary to carry into effect the provisions thereof.

(c) Any person who shall violate the provisions of this section shall be deemed guilty of a misdemeanor and upon conviction thereof shall be punished by a fine of not less than fifty dollars nor more than two hundred dollars.

(2) It shall be the duty of the respective district attorneys to prosecute all violations of the provisions of this chapter.

135.11 PENALTIES. Any person shall be deemed guilty of a misdemeanor, and upon conviction shall be punished by a fine of not more than five hundred dollars for each offense, or by imprisonment in the county jail for not more than one year, or by both such fine and imprisonment.

(1) Who shall use any other term than certified public accountant or the abbreviation C.P.A. to indicate that he is a public accountant with a specially granted title; or

(2) Who shall, when practicing under an assumed name, or as a member of a partnership, other than one which is registered under section 135.07 as composed of certified public accountants, or as an officer of a corporation, announce, either in writing or by printing, that the assumed name, partnership or corporation is practicing as a certified public accountant; or

(3) Who shall, as a member of a partnership, announce, either in writing or by printing, that the partnership is practicing as "public accountants" unless the partnership is registered as such under section 135.07; or

(4) Who shall, as an officer of a corporation, permit it to practice as a public accountant unless it is registered with the board, and holds an unrevoked certificate of authority from the board; or

(5) Who holds himself out to the public as a certified public accountant or who assumes to practice as a certified public accountant unless he has received a certificate as such from the board; or

(6) Who holds himself out to the public as a public accountant or who assumes to practice as a public accountant unless he has received a certificate of authority from the board; or

(7) Who shall practice as a certified

public accountant or as a public accountant after his certificate has been revoked; or

(8) Who shall as an individual, or, as a member of a partnership or as an officer or director of a corporation, practice or permit the partnership or corporation to practice as a certified public accountant or as a public accountant unless a registration card has been secured for the current year; or

(9) Who shall sell, buy, give or obtain an alleged certificate as a certified public accountant, or a certificate of authority, or a registration card in any other manner than is provided for by this chapter; or

(10) Who shall attempt to practice as a certified public accountant or as a public accountant under guise of a certificate not issued by this board, or under cover of a certificate obtained illegally or fraudulently; or

(11) Who shall certify to any false or fraudulent report, certificate, exhibit, schedule or statement; or

(12) Who shall attempt by any subterfuge to evade the provisions of this chapter while practicing as a public accountant; or

(13) Who shall, as an individual, or as a member of a partnership or as an officer of a corporation, permit to be announced by printed or written statement that any report, certificate, exhibit, schedule or statement has been prepared by or under supervision of a certified public accountant or by or under supervision of a public accountant when the person who prepared the same was not such certified public accountant or public accountant.

135.12 REVOCATION OF CERTIFICATES AND REGISTRATION CARDS. (1) The board may, on its own motion, make investigations and conduct hearings and may, on its own motion or upon complaint in writing, duly signed and verified by the complainant, revoke or suspend for a definite period any certificate or registration card or officially censure the holder thereof, if it finds that he has violated the provisions of this chapter or any duly promulgated standard or rule of practice or for any other sufficient cause.

(2) In the case of a corporation or a partnership, it shall be sufficient cause for

the revocation or suspension of the certificate or registration card of such partnership or corporation, or for censure of it, if it be found that any officer, director or member thereof has been guilty of such act or omission as would be cause for revoking or suspending a certificate or card to such person as an individual or for censuring him.

(3) A copy of the complaint shall be served upon the person complained against by personal service or by mailing same to his last known business address and in case the complaint is against a person, who is an officer, director, member or employe of a corporation or partnership, a copy of the complaint shall also be served upon such corporation or partnership. The person so served shall file his answer thereto with the board within twenty days after such service. The board shall thereupon set the matter for hearing as promptly as possible and within thirty days after the date of filing of the answer. At all such hearings the attorney general of the state, or an assistant designated by him, or the district attorney, or an assistant designated by him, shall be present and represent the interests of the public. The defendant and, if there be a complainant other than the board, the complainant may appear at such hearing in person or by attorney or agent.

(4) No order revoking or suspending a certificate or card or censuring the holder thereof shall be made until after a public hearing or hearings held before the board or any member thereof. Such hearing or hearings shall be held in the county where the defendant resides and, in the case of a nonresident, at such places as may be designated by the board. The testimony presented and proceedings had at such hearings shall be taken in shorthand and preserved with the records of the board. The board shall, as soon thereafter as possible, make its findings and determination thereon.

(5) The action of the board in revoking or suspending a certificate or card or censuring a holder thereof shall be subject to review by writ or certiorari brought in the circuit court for the county where the hearing has been held.

(6) The display of a card, sign, advertisement, a directory listing, or the issuance

of a letterhead bearing the name of an individual, corporation or partnership as a practitioner of public accounting as defined in section 135.02 shall be presumptive evidence in any hearing or prosecution against such person, that the person whose name is so carried thereon is responsible for the same and announcing thereby to practice public accounting. In any hearing or prosecution under this chapter, the proof of a single act prohibited by law shall be sufficient without proving a general course of conduct.

135.13 SAVING CLAUSES. Nothing contained in this chapter shall in any wise in-

validate or set aside certificates of certified public accountants as heretofore granted under the provisions of the sections which are now summarized in chapter 135. It is the intent of the legislature that if any provision in this chapter is held invalid or unconstitutional, all other provisions shall, nevertheless, remain in full force and effect.

Section 4. This act shall take effect upon passage and publication.

Approved September 20, 1935.

PHILIP LA FOLLETTE,
Governor.

The Kansas City Meeting

HATS off to Parry Barnes as a weather prophet! When invitations were extended by the Missouri Society asking that The American Society hold a meeting at Kansas City, the first question raised was whether we could avoid a hot spell. Barnes assured the Board that if a meeting was held he would guarantee the finest weather available. He delivered the goods. It was the first meeting that ran even a close second to the weather furnished by Denver.

The fourteenth annual meeting of The American Society, held at the Hotel Muehlebach, brought together members from thirty-three states, the largest number of states ever represented in an annual meeting. The registration was 181. For the first time application had been made for reduced railroad rates which were granted on the certificate plan and which were secured.

When the Secretary reached Kansas City, he found that William A. Hifner, Jr., and wife from Lexington, Kentucky, had preceded him. Shortly after, Upleger from Texas and Miller from Louisiana accompanied by Freeland, on his first visit to an American Society annual meeting, came in, having driven 628 miles during Saturday. The long distance autoists on a direct trip for the meeting were A. J. Rowland from Miles City, Montana, and J. G. Bixler from El Paso, Texas, each of whom passed the 1100-mile mark. Messrs. Cole, Graves and

Thomson from Los Angeles, California, came over by train and went back with Thomson in a new Dodge which he had ordered delivered to him at Kansas City. Cooper, from California, had an accident shortly before reaching Kansas City which completely destroyed one car wheel and injured his appearance by reason of a contusion on his forehead, but he was able to attend all of the meetings. Evans, from Michigan, found himself laid up for two days with a bad attack of pleurisy, following a wrenched side. Jennings of West Virginia and Dolge of California went the other boys one better by having with them not only their wives but their daughters.

Sunday evening the past-presidents of The American Society were guests at a dinner given at the Kansas City Club by Harry Lunsford, who was President in 1925-26. One of the fifteen past-presidents, Homer A. Dunn, had passed on. One, John B. Tanner, was seriously ill in the hospital. All but two others, who were unavoidably detained, although they had expected to be present, responded to the roll call as did President Heaton, First Vice-President Morrison and Dean John T. Madden, outside guests.

The history of The Society was informally covered in a reminiscent manner and the present developments with regard to a Single National Organization were thoroughly discussed. The general consensus

of opinion was that while The American Society was needed in the accountancy professional world when it was organized, present-day conditions were such as that one organization, retaining the best in both of the present organizations, would be a development in the right direction.

During the meeting the local Ladies' Committee under the Chairmanship of Mrs. Parry Barnes was continually in evidence, and convinced all present that the Kansas City accountants had in mind the element of hospitality when selecting their wives. Something was doing practically all day, either at the Muehlebach Hotel or the Mission Hills Country Club or the Kansas City Club. Luncheons, drives, bridge, a visit to the William Rockhill Nelson Gallery of Art, theatre party and musicale occupied all the spare time over and above the entertainment features participated in by both members and their wives.

Monday morning there were three meetings. The 1934-35 Board of Directors occupied its time in receiving reports from officers and committees for the past year and passing on to the incoming Board all unsettled problems.

A meeting of State Society Officials was presided over by Clarence L. Turner of the Pennsylvania Institute, a member of the committee in charge. Officials of 21 State Societies were present at some time during the day.

A meeting of State Board Members was presided over by Miller Bailey, President of the Missouri State Board, with representatives present from 12 State Boards. The entire membership of the boards from Iowa and Kentucky was present.

In the afternoon the meetings of State Board Members and State Society Officials were continued. Earl Waldo of Minnesota presided over the Society meeting.

During the afternoon the Golf Tournament was held at the Blue Hills Country Club. The Tanner Cup for low gross score was won by W. E. Freeland of Texas. The first winner of the original low gross score Cup was Arthur C. Upleger. The last winner is associated with him. Whether Arthur felt himself slipping and so started out to train a worthy successor accounts for Freeland's success we do not

know. He nevertheless demonstrated his superiority over the other contestants and turned in the lowest net score as well, but under the rules he was not entitled to both cups. The District Cup for low net score was won by Henry Miller of Louisiana. Messrs. Cumming, of Pennsylvania, and Knox, of Indiana, were runners-up, while Paul Pinkerton of Pennsylvania succeeded in getting the most exercise by accumulating a score of 122.

The Board of Directors for 1935-36 was in session Monday from five in the afternoon until midnight, devoting the most of its time to a discussion of the problems involved in the One National Organization idea. The joint committees of the Institute and Society had prepared a report including a method of merger to which some of The Society committee objected in the form in which it was presented. The Board also had before it the report of the Conference of Society Presidents at Atlantic City, and reports which had come in from 33 states following the Atlantic City meeting. With all this material, the Board decided to appoint a committee of five to sift the various suggestions as well as reports which had been presented, and report to the Board such points as in its judgment it felt should be considered in connection with the suggested merger plan.

Tuesday was the first day of an annual meeting since The Society was organized that its Board of Directors was not in session.

The Annual Convention of State Representatives was held Tuesday morning presided over by W. D. Morrison of Colorado, First Vice-President. George Ellis, who was the Councillor for The American Society in the United States Chamber of Commerce, presented a report. Morris J. Root of Philadelphia raised a question as to whether accountancy was a profession or a business, proceeded to answer it and in turn many others gave voice to their respective opinions with regard to the same subject. The balance of the morning was devoted to a discussion of the Single National Organization question.

The first formal session of the meeting was held Tuesday afternoon, First Vice-President William D. Morrison in the

chair. The address of welcome, on behalf of the Missouri Society of C.P.A.'s was given by P. H. Kerr, its Treasurer.

Mayor Bryce B. Smith spoke for the city. The Mayor evidenced his interest in the profession by the character of the remarks which he made in addition to the more formal expression of appreciation that the accountants were meeting in the city over which he had charge. Response on behalf of The Society was given by immediate Past-President Ellis.

The annual presidential address was given by William C. Heaton, after which Honorable Charles M. Trammell of the United States Board of Tax Appeals delivered an address. In the business meeting that followed, a discussion of the Single National Organization program was entered into, although the Board of Directors had not made its formal report.

Tuesday evening a dinner dance which was held at the Kansas City Club was thoroughly enjoyed by all.

Wednesday morning the session was given over to Technical Discussions. It was in charge of the Committee on Accountancy Practice, of which three members, Messrs. William G. Buchanan, Chairman, Robert E. Payne and William T. Sunley were present. They were reinforced in the presentation by William B. Castenholz of Illinois.

The afternoon session was in the charge of the Committee on Governmental Accounting, George P. Ellis, Chairman. The speakers were Messrs. Carl H. Chatters, Executive Director, Municipal Finance Officers' Association, and Lloyd Morey, Member Executive Committee of the National Committee on Municipal Accounting.

Wednesday evening there was a stag party at the Kansas City Club in which some of the features of the "Order of Twelve" were revived together with some of the amusement features connected with the Keno parties of two and three years ago.

The Thursday morning session gathered up some of the loose ends which had not been covered at the meeting of State Society Officials on Monday, and the session started out with Clarence L. Turner in the

chair for the purpose of completing the left-over questions.

This was followed by a discussion under the leadership of Orion N. Hutchinson of North Carolina, Second Vice-President, on the general subject of "Office Procedure."

The third part of the morning was given over to the presentation of the report of the Board of Directors on One National Organization.

Thursday afternoon the general subject was "Federal Government and the Accountancy Practitioner." The Board being in session, President Heaton designated Albert G. Aschenbeck of Minnesota to act as Chairman.

The addresses of the afternoon were given by John B. Payne, C.P.A., Comptroller, Agricultural Adjustment Administration, Washington, D. C., and Earle H. LeMasters, C.P.A., Comptroller, Farm Credit Administration, and Comptroller, Federal Farm Mortgage Corporation, Washington, D. C.

Following this, the Society went into its last business session, during which resolutions referred to it by the Board were passed.

The annual banquet Thursday evening brought the meeting to a close. Thomas H. Evans of Michigan was to have acted as Toastmaster, but was not able to assume those duties, and in his place Henry Miller of Louisiana presided. With a few well-selected stories, Miller introduced Francis Brody, the Chairman of the local Golf Committee, who awarded the golf prizes. The names of all of the women visitors were placed in one of the golf cups and each of the first five names drawn received a prize which had been provided by the local committee. He then, at the request of the other members of the Ladies' Committee, presented their Chairman, Mrs. Parry Barnes, with a handsome corsage of orchids in appreciation of the work which she had done.

The Toastmaster then introduced President Heaton who responded very feelingly at the close of his term of office and then in turn introduced the officials for the coming year.

Henry J. Miller of Louisiana, Member of the Executive Committee by election.

J. Arthur Marvin of New York, Treasurer.

Durand W. Springer of Michigan, Secretary.

Carl E. Dietze of Wisconsin, Second Vice-President.

Harry M. Jay of Tennessee, First Vice-President.

William D. Morrison of Colorado, President.

Mr. Morrison expressed his appreciation of the confidence of the members and promised his best efforts to make the coming year a successful one in the history of The American Society.

The following resolutions were offered by the committee, Messrs. Councilor of District of Columbia, Main of Pennsylvania, and Cole of California.

"Inasmuch as the various papers and addresses which have contributed greatly to a most successful meeting have represented a great deal of time and study in their preparation and personal sacrifice on the part of the speakers, it is not only our duty but our pleasure to express formally our thanks and appreciation to all the speakers for these contributions which have been highly instructive and of much benefit to those in attendance."

"The members of The American Society of Certified Public Accountants, their wives, sweethearts and friends and all others in attendance at this our fourteenth annual meeting, are deeply indebted to the Missouri Society of Certified Public Accountants not only for their gracious hospitality as expressed in so many ways, but even more so for the fine spirit of friendship and comradeship which has permeated all their actions."

"Almighty God in His wisdom has during the past year called to their final accounting the following of our members:

Alexander H. Abrahams, Alabama.
Robert Atkins, New York.
Anthony F. B. Becker, New York.
J. W. R. Bradford, Ohio.
Edward Brady, California.
James J. Burns, Pennsylvania.
Harry Edward Crable, Colorado.
Homer A. Dunn, New York.
Joseph Haag, New York.

Albert Edward Hamilton, California.

Andrew B. Lawson, Tennessee.

Samuel H. Lesh, Indiana.

A. F. Lindberg, New York.

T. W. Mathews, Virginia.

John B. McCabe, North Carolina.

R. J. George Oliver, Connecticut.

C. Edwin Oyster, California.

R. K. Ogle, District of Columbia.

M. E. J. Papke, Illinois.

William E. Poole, Jr., Illinois.

J. H. Trapp, Arkansas.

Thomas N. Willins, New York.

We sincerely regret that we do not have the opportunity to refer to the good works of each of these individuals nor to the loss which the respective families and communities have suffered. We do wish that each member present review in his own memory the very great loss which each one here has sustained in the passing of individual good friends included in this list.

Our Society is a greater organization because of the helpful and constructive service of these members and the profession itself is on a higher plane today than it would have been had not these members been a component part thereof.

For the first time a past-president is included in the list of our departed members—our late good friend and faithful worker, Homer A. Dunn."

Each was unanimously adopted, the members rising and standing for the third.

A few more stories by the Toastmaster, a couple of announcements and the crowd entered into the spirit of the dance and general fellowship until one o'clock, following which small groups, still loath to call it quits, lingered until in some cases as late as five in the morning, feeling that the meeting had been one well worth attending.

I do not know anything, except it be humility, so valuable as accuracy. Direct lies told to the world are as dust in the balance when weighed against the falsehoods of inaccuracy—and accuracy can be taught.

—Sir Arthur Helps.

Edison said: Success is 90 per cent perspiration and 10 per cent inspiration.

A Single National Organization

DURING the past two years the profession has been aware of a movement inaugurated by the New York State Society of Certified Public Accountants looking toward the substitution of a single national organization for the two present organizations commonly spoken of as American Institute and American Society. Committees from both bodies have met from time to time and sub-committees have studied various problems involved, making headway toward a common understanding, of the committees at least, with each succeeding meeting. The Society Committee consisted of John T. Madden, New York, Chairman; James F. Hughes, New Jersey and New York; Frank W. Main, Pennsylvania; Eric L. Kohler, Illinois, and Herman C. J. Peisch, Minnesota.

After the joint committees had reached an agreement to the effect that the profession had progressed to where a single national organization would be a move in the right direction, and had listed their ideas as to what might be considered the major points upon which some immediate changes in organization plans should be considered, a conference of State Society Presidents or Delegates was held at Atlantic City; at which time the two committees through their respective chairmen, Frederick Hurdman for the Institute Committee, and John T. Madden for The Society Committee, reported as to the advancement made. The persons present at the conference, representing thirty-nine State Societies, the District of Columbia and Puerto Rico, agreed on several recommendations to be sent to both Institute and Society as indicating what they believed would be endorsed by the profession as a whole. The report of the Atlantic City Conference was sent by the several State society presidents to the individual members thereof. Comments thereon were made through both Institute BULLETIN and Society NEWS. The profession is therefore familiar with what occurred prior to the annual meeting of The American Society held at Kansas City, September 30 to October 3.

Following the Atlantic City meeting, the Institute and Society committees prepared

a joint report which it was hoped would receive the approval of both organizations. The entire Institute Committee approved it but two members of The Society Committee declined to sign the report. One member based his objection on the fact that the joint report did not take into account, as he thought it should, the fundamental necessity of providing for no increase in dues. At present the Institute has a fee of \$25.00 for full membership and \$10.00 for associates, while The Society has a single membership fee of \$15.00. It was pointed out that practically six hundred C. P. A's who were members of both organizations would, under the merger, effect a saving of \$15.00 each if the present maximum fee was retained, whereas the larger part of the membership of The American Society would find themselves confronted with an additional \$10.00 charge. While it was generally understood that a lower than the maximum fee would be recommended as soon as the adjustments could be made with certainty as to the amount required, this member felt that some definite assurance should be given The Society members before the merger was consummated as to what the fee would be. The other Society member declined to sign on the ground that while "a single national organization representing the recognized profession of accountancy in the United States is highly desirable" the joint merger report trusted too much to future possibilities rather than being based on any definite knowledge as to what the profession really desired. The joint report of the Institute and Society Committees was as follows:

MERGER PLAN

It is proposed to merge the membership of the American Institute of Accountants, hereinafter called the "Institute," and the membership of The American Society of Certified Public Accountants, hereinafter called the "Society," on the following basis:

- 1—The Institute shall continue as the active national organization.
- 2—The Institute shall be furnished with a list of the members of the Society in good standing as of August 31, 1935,

certified by the President and Secretary of the Society. Each of the members of the Society whose name appears on such certified list shall, upon subscribing to the by-laws and rules of professional conduct of the Institute, become a member or associate of the Institute, as he elects, without examination or initiation fee.

3—Amendments to the by-laws of the Institute shall be adopted as follows:

- a—To permit the admission of members of the Society as provided in Paragraph 2.
- b—To require that after January 1, 1936, an applicant for membership or associateship in the Institute must hold a valid and unrevoked certified public accountant certificate issued by the legally constituted authorities of a State or territory of the United States of America, provided, however, that this by-law shall not in any way affect the membership rights of any present members of the Institute who do not hold such certificates.
- c—To reduce the experience requirement for associates to two years.
- d—To provide for the creation of an Advisory Council by the adoption of a new article as follows:

The Institute shall invite presidents of the recognized societies of certified public accountants in the several states and territories of the United States of America to form an advisory council of society presidents.

The advisory council shall at all times consist of the State society presidents then holding office in their respective societies, but if a member of the advisory council is unable to attend a meeting of the advisory council a member of his society may be designated by that society to represent him at the meeting.

At least once in each year the Institute shall call a meeting of the advisory council which shall choose its own chairman and secretary. A majority of the members of the advisory council shall constitute a

quorum.

The advisory council shall consider matters submitted to it from time to time by the council of the Institute and in its discretion may initiate and make recommendations to the council of the Institute. A full report of the transactions of the advisory council shall be submitted to the membership of the Institute at the same time as committee reports.

- 4—Contemporaneously with the certification of members provided in Paragraph 2 hereof, the Society, shall, by sufficient instruments, transfer to the Institute all of the property of the Society, real and personal and of every description. Thereafter the Society shall continue in existence as a corporation or shall be dissolved as the Institute may elect. In either event, the Society shall be inactive, and shall take such steps as in the judgment of counsel for the Institute are necessary in order to carry out the spirit of this plan of merger in leaving the Institute as the active survivor of the two organizations.
- 5—This plan shall be put into operation as follows:

The members of the Society's committee who have subscribed to this plan will attempt to secure the recommendation of a majority of the directors of the Society or not less than 25 members of the Society to the submission of an amendment to the constitution and by-laws of the Society, in accordance with Article 12 of the constitution of the Society. Such amendment shall provide that the officers of the Society are authorized and directed to put this plan into operation and that all provisions of the constitution and by-laws of the Society inconsistent therewith are repealed. If such submission has been made prior to the annual meeting of the Institute to be held October 15 to 17, 1935, the members of the committee of the Institute who have subscribed to this plan will submit to the annual meeting the amendments to the by-laws proposed in this plan, in accordance with Article XV of the by-laws of the Institute. If this plan is finally approved by the Society and the Institute

by the adoption of the amendment proposed to the constitution and by-laws of the Society by two-thirds of the state representatives, in accordance with Article 12 of the constitution of the Society, and by the approval of the proposed amendment to the by-laws of the Institute by two-thirds vote of the members present at the meeting and by a majority of all of the members in accordance with Article XV of the by-laws, then the plan shall be considered as constituting a contract between the Institute and the Society. Thereafter the steps outlined in Paragraphs 2 and 4 of the plan shall be taken as quickly as possible.

Two matters have been considered which the undersigned believe should be left for the consideration and action of the united membership after the merger, viz:

- a—Whether or not the name of the Institute should be changed to include in it the words "Certified Public" so as to read, say, American Institute of Certified Public Accountants;
- b—Whether or not the election of members of the council of the Institute should be on a regional basis instead of at large as at present.

The joint report with minority statements by the two Society members was discussed by the Advisory Committee at a meeting held Sunday evening, September 29. The Advisory Committee is made up of Past-Presidents of The Society who are privileged to speak in meetings of Directors but who have no vote therein. At the Monday morning meeting of the Board of Directors for 1934-35 the same report and statements were officially given to the Board and after some general discussion by those present the matter was transferred to the 1935-36 Board for such action as it desired.

The new Board of Directors was in session Monday evening from five until midnight with all available material before it for consideration. Each member of the Board had been requested to list the points to which, in his judgment, consideration should be given in connection with the proposed merger. The greatest objection raised to the joint merger report was that

it provided for the completion of the merger in advance of a presentation to the individual members of a referendum which would give to Society and Institute officials any definite knowledge as to the views of the members on the several points involved. State presidents had given their individual recommendations on most of them but a majority of the reports which had come from the several State societies following the Atlantic City meeting were confined to the statement that the society had voted either at a meeting or by ballot in favor of the general proposal. Only one State president had asked for a ballot in a form by which the views of the individual members of the society in that State were secured on the several points enumerated.

President Cumming of Pennsylvania had submitted six independent questions. The favorable vote on each ranged from 138, the lowest, to 211, the highest. The negative vote on each ranged from 4, the lowest, to 61, the highest. The number on each question for which no vote was cast, although other questions were voted on, ranged from 3, the lowest, to 26, the highest. This vote showed that while a majority was cast for each question submitted (and the percentage of those voting was practically fifty-fifty between Institute and Society members, counting those members of both in each group) there was a fairly wide spread in the importance attached to the several points.

With all this material before it the Board appointed a special Committee, Messrs. Jay of Tennessee, Miller of Louisiana, Madden of Indiana, Thompson of California and Carter of Georgia, and asked them to sift the various suggestions as well as reports and then report to the Board the points which in its judgment it felt should be considered in connection with the attempt to secure a single national organization. The real purpose of the appointment was to secure a sifting committee with the idea of eliminating all suggestions which had been made and which would not be considered fundamental to the establishment of a single basic national organization. The committee was in practically continuous session either in being interviewed or in working over the material until Wed-

nesday afternoon when it presented the following report to the Board of Directors:

SPECIAL COMMITTEE REPORT

"Your special committee has considered the report of the committee on 'One National Organization,' the report and resolutions of the Conference of State Society Representatives held at Atlantic City, August 23-24, 1935, and the resolution of the Board of Directors on the subject of the merger of The American Society of Certified Public Accountants and the American Institute of Accountants. Consideration has also been given to the views of members as expressed by them on the floor or before the committee.

"The conclusion has been reached that the plan of merger submitted does not meet the views of The Society and it is recommended that the following essential points be set forth in the form of an agreement between The American Society and the American Institute of Accountants whereunder the two organizations will be united as a new organization succeeding the two existing organizations, to be effective if and when accepted by the members thereof:

"1. The name of the new organization to include the words 'Certified Public Accountants.'

"2. All members and associates of the two existing organizations at the date of acceptance of the agreement to be admitted as members of the new organization in a single class, the qualifications of future members to be the possession of a C. P. A. certificate granted by the states.

"3. The governing body of the new organization to be nominated and elected by and from geographical districts by mail ballot of members resident in the district.

"If it is decided that, for practical purposes, it is best to use The American Institute of Accountants' charter as the vehicle of consolidation, the by-laws of that organization shall be amended wherever necessary to meet the requirements of the agreement.

"The following points, while not thought to be essential to the agreement, should be considered by the organization after the consolidation:

"1. Dues to be fixed at as small an

amount as may be found consistent.

"2. An advisory committee to be created composed of the Presidents of State Societies, or other representative in the event of the inability of such president to serve. Such committee to meet at least once each year for the purpose of presenting suggestions to the governing body and to consider such matters as may be submitted to it by the governing body."

The report of the Special Committee raised no points that were different from those referred to in the plan of merger submitted by the Joint Committee. It did, however, indicate that in the judgment of the Committee the plan of procedure suggested by the Joint Committee was not, in the light of information at hand, acceptable to the preponderance of views expressed to the Special Committee. A full discussion of the report was had. The second non-essential point was transferred and placed as Number 4 in the essentials, leaving a single important, but non-essential point. It was also decided to include for the present at least the possibility, although not the probability, of utilizing The Society charter as well as the Institute charter and hence the possibility of amendments to either or both charters. After these changes had been made, the report was adopted as embodying the essential points to be considered and the Committee was directed to prepare a second report touching on the question of procedure.

Thursday morning the Special Committee presented the following:

PROCEDURE RESOLUTIONS

WHEREAS, The New York State Society of Certified Public Accountants requested the American Institute of Accountants and The American Society of Certified Public Accountants to appoint committees to confer with reference to the possibility of uniting both in a single national organization, and

WHEREAS, such committees were appointed and have reported progress, and

WHEREAS, The New York State Society invited the presidents or delegates from each of the other State societies to participate in a conference, without any actionable authority, for the purpose of

considering the reports of those committees, and

WHEREAS, at such conference certain recommendations were made by those present, and

WHEREAS, The American Society in annual meeting assembled has received reports from both the Committee and Conference, as well as from its own Board of Directors, and has carefully considered them;

THEREFORE, BE IT RESOLVED, by the members present at the 1935 Annual Meeting of The American Society of Certified Public Accountants, that thanks are tendered to the New York Society for the initiative it took in bringing this subject to the attention of the whole profession, and

Be it further Resolved, that thanks are also tendered by the Society to its committee for the time and energy it has spent in connection with the several necessary meetings which have been held, and

Be it further Resolved, that while we believe that the profession would be advanced with but one national organization, we are strongly of the opinion that before final action can be satisfactorily taken the individual opinions of the respective members should be secured as we further believe that understandings reached in advance of such action will be more certain of ultimate and lasting success, and

Be it further Resolved, that the following points, upon which a referendum would be advisable, be sent to the American Institute of Accountants with the suggestion and request that it add thereto any points which it may desire.

(See Special Committee Report.)

The phraseology of the referendum to be left to the Executive Committees of the American Institute of Accountants and The American Society of Certified Public Accountants, and

Be it further Resolved, that the Board of Directors of The American Society of Certified Public Accountants propose to the members, together with the referendum, an amendment under which its Executive Committee may submit to the membership, for adoption or rejection such amendments or rules of authorization as

may seem expedient following the returns received from the referendum, and

Be it further Resolved, that The American Society of Certified Public Accountants respectfully suggests that the American Institute of Accountants, at its annual meeting, propose an amendment and submit it to its members, together with the referendum, under which its Executive Committee may submit to the membership for adoption or rejection such amendments or rules of authorization as may seem expedient following the returns received from the referendum, and

Be it further Resolved, that the joint list of points be distributed by the American Institute of Accountants as a referendum to its members, and distributed by The American Society of Certified Public Accountants as a referendum to its members, with requests for a vote thereon within thirty days, and

Be it further Resolved, that an interchange of the result of the votes of the referendum when taken shall be reported to the Executive Committees of both the American Institute of Accountants and The American Society of Certified Public Accountant, and

Be it further Resolved, that the Executive Committees, when this plan is adopted, shall jointly submit to the separate memberships, for ratification or rejection, such amendments or rules of authorization approved by the Executive Committee of the American Institute of Accountants and/or the Executive Committee of The American Society of Certified Public Accountants as may be necessary to carry out the wishes of the memberships, as expressed by the votes on the referendum, and

Be it further Resolved, that a copy of these resolutions be transmitted to the American Institute of Accountants, and

Be it further Resolved, that these resolutions be published in the October issue of THE CERTIFIED PUBLIC ACCOUNTANT.

It should be noted that the objection to the Joint Committee report which was most frequently heard, namely, that it should become effective with some of the points which were deemed to be important unsettled, was based on the proposition that neither the officials of Institute or Society

were fully informed as to the general wishes of the individual members of either organization with regard to the several points which had been considered. The report suggested, by a series of resolves, that before any final amendments were prepared for submission it would be better to send down a referendum in each organization upon which the membership opinion would be asked point by point. It was felt that the Institute might have some points which they would think were of equal importance with those suggested by The Society, and the suggestion was made that if this plan was agreeable to the Institute the phraseology of the referendum should be left to the Executive Committees of Institute and Society for preparation so that the members in each organization would be voting on the same points.

In order that time could be conserved and in view of the fact that the methods of attacking amendments are somewhat different in the two organizations it was further suggested that at the annual meeting the proper body in each case be authorized to propose amendments for submission with the referendum under which the Executive Committee of each organization would be authorized to submit to its membership, following the returns received from the referendum, such amendments or rules of authorization as might seem expedient in order that they might be adopted or rejected by the membership as a whole. It is understood, of course, that while the referendums would better contain the same questions, the actual amendments or rules of authorization would need to be different in the two organizations, but their preparation should be jointly agreed to by the Executive Committees of the two bodies as the legal bodies authorized to act within the interim of annual or Board meetings.

These suggestions do not introduce any new points, but if the plan is carried out the Executive Committees both individually and jointly will be able to phrase the final amendments or rules necessary to put the merger into effect with a better background of information than has been had by the Joint Committee that has been working on the matter.

Too much credit cannot be given to these committees for the progress which they made.

The procedure resolution was referred to the annual meeting by the Board with a recommendation that it be adopted. Under the By-Laws of The Society this was not technically necessary, but it was felt that the question was of such importance that it should be submitted to the entire membership.

The recommendation of the Board having been transmitted to the annual meeting, discussion was had thereon as to the difference in procedure involved between the Joint Committee merger plan and the Board of Directors suggested plan.

At the afternoon session a substitute resolution was submitted from the floor which sought to tie-in the two plans by means of a provision in the substitute to the effect that the merger plan "be accepted as a basis for the merger of the two organizations, with the reservation that a plan of merger shall not be consummated until the Board of Directors of The Society shall first have secured an expression of opinion of its members by a mail questionnaire upon the points which have been suggested." During the four days of discussion every conceivable angle had been touched upon by everyone who desired the floor and by some there had been several reiterations of the points involved. The substitute did not get to the floor until within less than an hour of necessary adjournment, and in the vote that was taken the substitute was not adopted and the Board procedure resolution was adopted. The substitute was as follows:

SUBSTITUTE RESOLUTION

WHEREAS, the New York State Society of Certified Public Accountants requested the American Institute of Accountants and The American Society of Certified Public Accountants to appoint committees to confer with reference to the possibility of uniting both in a single national organization, and

WHEREAS, such Committees have prepared a report embodying a Plan of Merger which reads as follows:

(See Merger Plan.)

and,

WHEREAS, the New York State Society invited the presidents of (or delegates from) the other State societies to participate in a conference, without any authority to bind their respective societies, for the purpose of considering the proposed plan of merger, and

WHEREAS, at such conference the proposed plan of merger was approved in principle and each of the several points involved was discussed and favorably voted upon, subject to certain recommendations, by those present,

THEREFORE, BE IT RESOLVED, by the members present at the 1935 Annual Meeting of The American Society of Certified Public Accountants that, it would be in the interest of the profession to have but one national organization, the foregoing plan be accepted as a basis for the merger of the two organizations, with the reservation that a plan of merger shall not be consummated until the Board of Directors of the Society shall have first secured an expression of the opinion of its members by a mail questionnaire upon the following points:

(See Special Committee Report.)

BE IT FURTHER RESOLVED, that the Board of Directors of this Society submit to the members simultaneously with the mailing of the proposed questionnaire an amendment to its by-laws to clothe the Executive Committee with the necessary authority to consummate the merger, including authority to confer with the American Institute of Accountants or any committee thereof.

BE IT FURTHER RESOLVED, that The American Society of Certified Public Accountants respectfully suggests that the American Institute of Accountants ascertain the opinion of its members upon the same questions.

BE IT FURTHER RESOLVED, that the result of the questionnaire shall be reported to the Executive Committee of the American Institute of Accountants, and

BE IT FURTHER RESOLVED, that a copy of these resolutions be transmitted to the American Institute of Accountants, and

BE IT FURTHER RESOLVED, that these resolutions be published in the Octo-

ber issue of THE CERTIFIED PUBLIC ACCOUNTANT.

It seemed to be the general feeling as adjournment was had that if the substitute resolution could have appeared in the discussion earlier in the week so that the similarity of its effect on what was actually done could have been noted, it would have been adopted, if thereto had been added that a similar vote was taken by the members of the Institute. The idea was frequently expressed that nobody knew whether the rank and file of the Institute members were in favor of the plan and would welcome the merger any more than anyone knew the desires of Society members.

At a meeting of the Board of Directors Thursday evening, the amendment provided for by the Procedure resolution was passed, and the special Committee on One National Organization was continued for its informal liaison value.

PROPOSED AMENDMENT

Add paragraph to Article XIII of the Constitution reading:

"In view of negotiations pending between The American Society of Certified Public Accountants and the American Institute of Accountants looking toward a merger, the Executive Committee is specifically authorized to prepare and submit to the members of The Society, for a vote thereon, any referendums, amendments or rules of authorization which it may deem expedient, and to take any other actions under authority which may be granted it as the result of such vote or votes, any provisions in the Constitution and By-Laws which would restrict its freedom in this matter to the contrary notwithstanding, this paragraph being in full force until August 31, 1936."

If the Institute concurs, which it undoubtedly will, in the suggestion for a referendum, the way is open for immediate action by the Executive Committee of The Society on any needed amendments or rules of authorization. It is believed that one more step was taken at the Kansas City meeting, and that the Institute members will concur in the general proposition that an advance expression from the members will be helpful.

Board of Directors Meetings

THE last meeting of the 1935-35 Board of Directors was held at the Hotel Muehlebach, Kansas City, Monday morning, September 30, 1935, at nine-thirty. The following Directors were present: Heaton, Morrison, Hutchinson, Springer, Ellis, Loeb, Coe, Jennings, Madden of Indiana, Jay, Carter of Georgia, Peisch and Fitzkee. The members of the Advisory Committee present were: Main, Councilor, Pinkerton, Upleger, Hughes, Miller and Cole and by invitation Director-elect Thomson and John T. Madden Chairman of The Society Committee on One National Organization.

The reports of officers and committees as presented in the preprint from the October issue of THE CERTIFIED PUBLIC ACCOUNTANT were received. The auditor's report prepared by Frank Chappell, C.P.A., of Washington, was presented and referred to the Budget and Finance Committee. The Secretary presented the usual comparative statistical report covering the lifetime of The Society. Reference was made to the passage of the new regulatory law in Wisconsin and the committee in charge, Carl Dietze, Chairman, were congratulated. The Secretary presented some correspondence with reference to a possible complaint against one of the members and the matter was referred to the Committee on Complaints for the ensuing year for follow-up purposes. Telegrams were ordered sent to Messrs. Tanner, Wall, Redeker and Scott, each of whom was unable to be present by reason of illness. All unsettled matters in the file were referred to the new Board of Directors for action. Chairman Madden presented a written report of the Joint Committee from Institute and Society which had been prepared with reference to the suggested single national organization. Two members of The Society Committee, Messrs. Main and Peisch, disagreed with the majority report. Considerable time was spent in discussing the points and material relating thereto. The entire file was referred to the incoming Board.

The first meeting of the Board of Direc-

tors for 1935-36 was held at the Hotel Muehlebach, Kansas City, Monday afternoon, September 30, at five-thirty. The following Directors were present: Heaton, Morrison, Hutchinson, Springer, Ellis, Loeb, Grice, Jennings, Jay, Carter, Peisch, Barnes, Fitzkee, Thomson and Racine. Members of the Advisory Committee present were: Main, Lunsford, Councilor, Pinkerton, Upleger, Hughes, Miller and Cole. Present by invitation, former Directors Coe of Delaware and Madden of Indiana and Chairman of the One National Organization Committee, Madden of New York.

The first business was to receive as a matter of record the unfinished items transferred to the new Board by its predecessor. William D. Morrison of Denver, Colorado, was elected as President for the coming year. Nominations were made of candidates for the offices of First and Second Vice-President and Treasurer. The Endowment Committee was requested to report at a later date a method of handling the Endowment Fund of The Society. The President appointed Messrs. Councilor, Main and Cole as members of the Committee on Resolutions. Copy of the proposed budget for the year 1935-36 was presented for the information of the Board. Copies of the Merger Plan presented by the Joint Committee were distributed, as were also, for purposes of record, copies of the report of the Atlantic City meeting. The Board gave careful consideration to the presentation by the individual members thereof of points which should be taken into consideration in connection with the proposed merger. On motion the President was authorized to appoint a Special Committee to report to the Board at as early a time as possible the points which in their judgment should be considered as being of fundamental importance. The Committee thus appointed was, Jay of Tennessee, Thomson of California, Miller of Louisiana, Carter of Georgia and Madden of Indiana. The Board adjourned at midnight.

The Board of Directors met Wednesday

afternoon, October 2, at two-thirty for the purpose of receiving the report of the Special Committee. All members were present. After the report was read discussion was had with reference thereto. After two minor amendments and one shift in order of point listing were made, the report was adopted. The same Committee was reappointed and requested to bring in a report as soon as possible with regard to the problem of procedure involved in further negotiations. One more name was added to the list of nominees for the officers to be elected and the meeting adjourned.

The Board of Directors met Thursday morning at eight o'clock. The Budget and Finance Committee reported favorably on the budget as presented Monday and it was adopted. Frank Wilbur Main, Chairman of the Endowment Fund Committee, presented the following report and it was adopted:

"Whereas, the work of the Endowment Committee has been unavoidably and of necessity limited due to circumstances beyond the control of said Committee, and

"Whereas, definite plans for the permanent handling of receipts and the use thereof can well be delayed until the future status of The American Society is determined, therefore be it

"Resolved, that all receipts for Endowment purposes, be placed in the custody of the Treasurer of The American Society in a separate bank account subject to all the safeguards and protection placed around all current receipts and other funds.

"Resolved, further that the disposition and use of the income arising from said receipts be subject to the action of the Board of Directors of The American Society, and in the interim between Board Meetings by the Executive Committee of said American Society."

Invitations for the 1936 meeting were presented by Messrs. Cotton of Kentucky, Cole of California and Peisch of Minnesota, each representing his State Society.

The report of the Special Committee on Procedure was made and adopted after full discussion, after which the meeting adjourned for the purpose of presenting its report to the Annual Meeting.

The Board met at two-thirty Thursday afternoon. It voted to hold the 1936 meeting at Minneapolis, on invitation of the Minnesota Society. One more name was added to the list of nominees for officers after which the following were elected: First Vice-President, Harry M. Jay of Tennessee; Second Vice-President, Carl E. Dietze of Wisconsin; Secretary, D. W. Springer of Michigan; Treasurer, J. Arthur Marvin of New York; Member Executive Committee, Henry J. Miller, Louisiana. The Board adjourned to attend the recessed business meeting of the members.

The last meeting of the Board of Directors was held Thursday evening, October 3, at ten-fifteen. Acting on the resolution passed at the afternoon business meeting, the Board decided that the Committee on One National Organization should be retained for the coming year as affording an informal contact relationship which was recognized by all as having been not only extremely valuable but necessary. It directed that the amendment to the Constitution authorized by the resolution be submitted to the members as well as to the State Representatives by whom it must be adopted by a two-thirds vote within a month after submission. It also authorized the Executive Committee to make changes in its phraseology which did not alter its purpose should action taken by the Institute make such changes expedient.

Women in Banking

The *Southern Banker* for July carries on its front cover the pictures of two winners of honors in the American Institute of Banking. One of them, Ethleen Lassester, the manager of the analysis department of the First National Bank of Atlanta, had been named as chairman of the National Women's Committee of the A.I.B., largely because of the fine record which she made as chairman of the Atlanta Committee during the past year. The statement is made that she is the first Southern woman to be accorded that high honor, as it places her in charge of all women's activities in A.I.B. for the entire country. Miss Lassester holds a C.P.A. certificate from the State of Georgia which she obtained in 1934.

Questions and Answers Department

EDITOR, STEPHEN GILMAN, C.P.A., Educational Director
International Accountants Society, Inc.

Solution to Problem 9 of November, 1934, Examination Service of The American Society of Certified Public Accountants, published on pages 249-250 of the April, 1935, issue.

The problem requires the candidate to prepare adjusting journal entries as part of the solution and these entries may be used for "posting" against the trial balance figures, the results being carried directly to the balance sheet, the second requirement of the problem.

The adjusting entries may be entered on a working sheet or in memorandum "T" accounts. With some practice, and especially where there are so few journal entries, this part of the work may be done in side calculations. In so doing, the candidate should have a very clear mental picture of the complete balance sheet before beginning the work.

The quantities of grain shown in entries 6 and 7 are determined by first calculating the number of bushels in the trial balance inventory \$2,235,000 at 60c, the market value of the grain, which gives 3,725,000 bushels. The problem, paragraph (d) shows a total of 3,925,000 bushels sold. This gives a basis for writing down the actual inventory value in entry 6. In entry 7 the loss on the excess of 200,000 bushels sold is provided for.

New Deal Grain Co. Adjusting Journal Entries June 30, 1934

(1) Balances—Correspondent Brokers	\$ 80,000	
Deposits—Chicago Board of Trade Clearing Corporation	265,000	
Margins		\$345,000
To segregate firm trading balances.		
(2) Profit and Loss.....	1,500	
Balances—Correspondent Brokers.....		1,500
To take up loss on 30,000 oz. silver sold short by Deland et Cie.		
(3) Customers' Debit Balances (fully secured).....	129,500	
Customers' Debit Balances (unsecured).....	25,000	
Customers' Accounts		154,500
To segregate customers' debit balances.		
(4) Customers' Accounts	237,000	
Customers' Free Margins.....		187,000
Customers' Credit Balances (unsecured).....		50,000
To segregate customers' credit balances.		
(5) Advances on Purchases (fully secured).....	15,000	
Advances on Purchases (unsecured).....	500	
Customers' Accounts		15,500
To segregate secured and unsecured advances.		

(6) Profit and Loss.....	66,700	
Inventories of Grain.....		66,700
To write down inventory to price of hedges and com-		
mitments against inventory:		
780,000 bu. at 1c.....	\$ 7,800.00	
2,945,000 bu. at 2c.....	58,900.00	
<u>3,725,000 bu.</u>	<u>\$66,700.00</u>	
(7) Profit and Loss.....	4,000	
Reserve for Loss on Sale of Grain.....		4,000
To take up loss on 200,000 bu. sold over inventory		
on hand at June 30, 1934, at 2c per bu.		

New Deal Grain Co.

Balance Sheet

June 30, 1934

ASSETS

Cash			\$ 150,000.00
Deposits—Chicago Board of Trade Clearing Corporation.....			265,000.00
<i>Accounts receivable:</i>			
	<i>Secured</i>	<i>Unsecured</i>	<i>Total</i>
Customers' Debit Balances			
(trading accounts)	\$129,500.00	\$25,000.00	\$154,500.00
Advances on Purchases....	15,000.00	500.00	15,500.00
	<u> </u>	<u> </u>	<u> </u>
Totals	\$144,500.00	\$25,500.00	\$170,000.00
	<u> </u>	<u> </u>	<u> </u>
Balances Correspondent			
Brokers		78,500.00	248,500.00
		<u> </u>	<u> </u>
Inventories, consisting of 3,725,000 bushels of grain,			
valued at future delivery prices which are less than			
cost or market value.....			2,168,300.00
			<u> </u>
Total current assets.....			\$2,831,800.00
<i>Bonds and Investments—at cost</i>			
(market value, \$180,000.00).....			227,000.00
<i>Fixed Assets:</i>			
Elevator properties		\$350,000.00	
Furniture and fixtures.....		20,000.00	
		<u> </u>	<u> </u>
Total		\$370,000.00	
<i>Less—Reserve for Depreciation.....</i>		77,000.00	293,000.00
		<u> </u>	<u> </u>
			<u>\$3,351,800.00</u>
			<u> </u>

LIABILITIES

Notes payable, secured by pledge of 1,250,000 bushels
of grain having a market value of \$750,000.00.... \$ 603,000.00
Customers' credit balances—

	<i>Secured</i>	<i>Unsecured</i>	<i>Total</i>
Trading accounts.....	\$1,633,000.00	\$50,000.00	\$1,683,000.00
Free margins.....	187,000.00	187,000.00

Totals	\$1,820,000.00	\$50,000.00	\$1,870,000.00	1,870,000.00
--------------	----------------	-------------	----------------	--------------

Accounts Payable		\$ 25,000.00	
Accrued Commissions, Taxes, etc.....		10,000.00	
Reserve for Loss on Sale of Grain.....		4,000.00	39,000.00

Total current liabilities.....			\$2,512,000.00
--------------------------------	--	--	----------------

NET WORTH

Capital Stock		\$600,000.00	
---------------------	--	--------------	--

Earned Surplus:

Balance, January 1, 1934.....	\$175,000.00		
-------------------------------	--------------	--	--

Add—Net Profits for the year ended June 30, 1934.....		64,800.00	239,800.00	839,800.00
--	--	-----------	------------	------------

				\$3,351,800.00
--	--	--	--	----------------

TALKING SHOP

A DEPARTMENT CONDUCTED BY LEWIS GLUICK, C.P.A., New York

And herewith we commence the eighth year of Shopkeeping.

WILL ROGERS

We saw the man only once on the stage, and never met him. But his death shocked and grieved us beyond that of many persons we have been personally acquainted with. We read his daily squib in the *Times*. We saw nearly all of his pictures; and even in a couple where his managers miscast him criminally, he was good. His personality was remarkable; his philosophy kind; and his humor gentle. We feel that the greatest compliment ever paid us was when we were called once "the C. P. A. Will Rogers." We only wish we could believe that we weren't being kidded. We only hope we can live up to it.

Andrew Barr, C.P.A. (of Ill.), was the Yale faculty representative with that university's baseball squad in Japan this summer.

TAXES

The Insulls were upheld again on August first. (32 BTA No. 161) The case of Ingram (32 BTA No. 159) is heartening to the oppressed taxpayer. The Board, in giving a clean decision for the petitioner, said in part: "When the Commissioner sets aside a closing agreement he must prove facts to support such action. Misrepresentation of a material fact must be more than mere incorrect, erroneous, or mistaken statement." Jim Councilor assisted two lawyers in getting a rule 50 for the United Carbon Co. (32 BTA No. 151.) If you have ever been in Washington long enough to require laundry work, read the case of Marshall (32 BTA No. 143) and his "Palace Laundry." The Neracher case (32 BTA No. 32) is a curiosity. More than three months after the decision the Board issued an order modifying it. Errors on the part of the petitioner and Com-

missioner led the Board into an erroneous decision. Some fun!

HOW ABOUT YOUR NUMBER?

We can understand any man forgetting his auto license plate number, because it changes once a year. We can understand Mr. Bell, of H. & S., forgetting the numbers of his certificates, because if any C. P. A. has been certified in more jurisdictions we don't know who it is. But why a man with one certificate should not know the number thereof, is a big question. At best it indicates indifference. At worst it can mean serious embarrassment to the honest C. P. A. with a poor memory. But usually the man who says he cannot remember his certificate number has no number to remember, and is a fraud. We are not going into the details of a recent example; but it would be well for all accountants to remember that The American Society has in its files a list of every certificate ever granted; and as far as possible the most recent address of the grantee. Be particularly careful of men who forget the number of their District of Columbia certificates, which they allege they hold. Remember the diploma mill whose actions brought our American Society into existence had its base in Washington.

Dog

It is things like this that make shopkeeping so very worth while; and we hope you share our enjoyment of this contribution:

"What is a dog from an accountant's point of view? A factory found that its old and faithful night watchman's hearing was growing less acute. This was serious; it was not desired to lay him off; and to pension him would be an undesirable expense. A keen-eared dog as his helper seemed the proper solution; so a good, grown animal was purchased for \$50.

"Was he an expense? Obviously not. You did not have to be a canine actuary to know that a dog which has survived his first year is good for at least nine more. So he's an asset, subject to depreciation. But what kind of asset?

"Fixed? Not if you know the prime meaning of that word, and saw him scampering around. If this had been a milk company, with horse wagons, a charge to

live stock would have been all right. But it wasn't. The problem was finally solved by a clerk who thought he was wise-cracking. He suggested prepaid insurance. Well, what was the dog for except to help the watchman, whose presence reduced both the fire and theft rates? Furthermore, it settled the question of what to name the pooch. He's known as 'Preep', short for Prepaid Insurance."

LAUGH OF THE YEAR

"Yes," said our own Gracie Allen. "We pay our bills promptly now. The minute we get a letter from a lawyer, out goes a check."

LITERARY NOTE

For a good many years, as our constant readers know, we have been reporting on, and asking them to tell us about, accountants in literature. Some day, when we have enough, we will gather them into one article. Meanwhile here's another via Mrs. M. L. Becker of the New York *Tribune*. It seems that over a century ago there lived in Scotland a truly remarkable child named Marjorie Fleming. She wrote a delightful misspelled diary, full of human interest. But she called the book her "journal." And why not? Since she was the daughter of an accountant. If you are interested further see the book published by the Oxford University Press @ \$2.00.

A recent case which Max Goldberg of New York had fits in with another we've been holding for a long time. The latter was from G. P., also a New York C. P. A. Goldberg's case had to do with an estate of several million dollars. Eighteen annual accountings were filed in court by the trustee and then, the trustee having died, an audit was made for the first time. The books had been kept neatly, and were in balance. But there was a shortage of over two million in the corpus as computed by the auditor, and the corpus as last reported by the trustee. Innumerable errors in bookkeeping accounted for this huge sum; there was no speculation. The other case involved an estate of a little over one hundred thousand, in which, during 28 years, no accounting was filed with the Surrogate. Then, the life tenant having died, one of

the remaindermen sued for an accounting; which G. P. made. A lot of detail work was done on books that did *not* balance. But at the end all but eighteen dollars was clearly accounted for. From which two definite conclusions can be drawn: (1) Annual accountings should be had, but are not conclusive. (2) Annual audits should be had, and they are conclusive. Tell the lawmakers of your respective states!

The Embarrassing Moments department welcomes the following from Lynn Baxter of Utah. On a trip to California he drove across the burning sands of the desert. It was the night the moon was eclipsed; and just as the moon went completely black, his car-lights burned out.

Flash; flash; by way of the BTA Volume 32, G. H. Emery, C.P.A., got a nice Texas Leaguer in the case of Schumacher (No. 178) involving the rights of aliens. The Grenada Bank (No. 187) is interesting as a study in embezzlement technique.

"Your eyes look tired," said the Kid to Blank. "Wassa matter?"

"Digging tax stuff," replied Blank. "Had to read over all the reports for two months, too."

"Bad business," said Oldtimer. "Ought not let them accumulate like that."

"Easy for you to talk," retorted Blank. "With a big office like yours you can have all the services filed promptly and annotated for your particular needs by a clerk who does little or nothing else. But a little fellow like me can't do that."

"You had to do it anyhow in the end," remarked the Kid.

"Let me tell you what I do," said Philo, "and what a cash value it has. I'd rather stay overtime for an hour each week than have to sit up most of one night as Blank seems to have done. Only once have I ever failed to look over my tax service for as long as six weeks. I can't always examine and file the reports the day they arrive; that is ideal. But with very few exceptions one report has been gone over and filed before the next one arrives. Once the habit is formed it's as automatic as going to the barber every two weeks."

"From the looks of Blank's hair," interrupted the Kid, "he's delinquent there, too."

"Look here," said Blank, "that's hitting below the belt. Once in three weeks is enough."

"Okay," said Philo. "But you can't work on my staff if your hair is as long as that."

"Don't want to," retorted Blank, and then Oldtimer broke in. "Gentlemen, don't quarrel. Let Philo tell us about his tax case."

"Well, during early July, what with the seven-o-sevens and mid-year fiscals and so forth I was very busy; and it was more than a week after the Chisholm case was reported that I saw it in the service. I recognized its importance at once, for a valued client had a similar case for me to handle, and on the basis of the Gregory case I couldn't hold out much encouragement for him. I immediately went over to tell him about it; and it put him in such good humor that without my asking he wrote me a check on account of what he owed me. Two days later Godfrey Nelson had a full column article in the *Times* about it, which, of course, my client saw. Now can you imagine how small I would have looked if I had not seen and noted the case before he read Nelson's clear analysis of it? This way I saved what the Orientals call 'face'."

"Yes," said the Kid, "and I'll bet you anything reasonable that that Sunday your client was going around telling all the people he knew or got in conversation with at the beach that it was no news to him; he had a smart accountant who had told him all about it long before."

"You're too smart," said Philo, "and wrong besides. It wasn't the beach, but the country club; and he told only one good friend; but I've got a new client."

The Independent Fertilizer Manufacturers' Association, Inc., recently issued in pamphlet form a brief which had been prepared for a client by Wm. C. Brooker, attorney-at-law, Tampa, Florida, on "Co-operative Marketing Associations in Business."

OUR READERS' FORUM

Contributions for this section will be limited to in the neighborhood of 250 words. A free but short expression of opinion is requested on subjects in which the certified public accountant is interested. Address the Editor.

Dear Mr. Springer:

WHILE there are probably quite a few things in the Latin Americas that the members would be interested in, I think perhaps that first of all they would like to know if there are Latin American C.P.A.'s. Dealing only with the Argentine Republic this time, which incidentally is one of the most advanced of the South American countries, there are members of the Accounting profession known as Contador Público Nacional (C.P.N.) which means National Public Accountant. The profession exceeds this in having a higher degree known as Doctor en Ciencias Económicas or Doctor in Economic Sciences. Either of the certificates is obtained without previous practical experience. There is also such a profession as Certified Bookkeeper.

There are three educational institutions in this country: first the Primary or Grade School, second the Commercial College or High School, and thirdly the National University. The Primary School has six grades, the Commercial College is a six-year course. Graduation from the first two mentioned entitle the graduates to enter the National University.

The requirements necessary to be either a Certified Bookkeeper, Contador Nacional or Doctor en Ciencias Económicas are as follows:

1. Anyone who has passed the 4th, 5th or 6th grade of the Primary School may enter the High School, provided an oral and written examination is given, as follows:

In the case of possessing a certificate of the 4th grade, the examination comprises all subjects pertaining to the 5th and 6th grades. If possessing a certificate of the 5th grade, it comprises all subjects pertaining to the 6th grade.

If possessing a certificate of the 6th

grade, it comprises only arithmetic and language.

2. A course of six years in the Commercial College is required to become a Certified Bookkeeper (Perito Mercantil), and once this is completed an examination to enter the University is not necessary.

3. A course of four years in the University is necessary to become a Public Chartered Accountant (Contador Público Nacional).

4. Once graduated as Public Chartered Accountant and after having been given an examination which comprises four subjects, a course of one year is required to become a Doctor of Economic Sciences (Doctor en Ciencias Económicas). Finally, in order to obtain the Certificate as such, a thesis must be submitted or otherwise an oral and written examination given on any subject which the student may choose.

No information the writer has been able to avail himself of, shows when any practical experience is required. You may see from this that the graduate of the University is situated in a unique position in that he doesn't have to check those debits and credits until he has passed the required practical experience as is mandatory at home. A break for the young accountant and in respect to the public; they in these countries, have been used to accepting things "as is."

If there is any member of the Society that would like any information on certain principles or matters of business the writer during his stay would only be too glad to furnish it.

Very truly yours,

WILBERT J. SMITH, C.P.A.
c/o West India Oil Company,
Buenos Aires, Argentina, S. A.

At the Crossroads

He stood at the crossroads all alone,
The sunrise in his face;
He had no thought for the world unknown,
He was set for a manly race.
But the road stretched east and the road
stretched west,
And the boy did not know which road was the
best.
So he took the wrong road, and went down,
And he lost the race and the victor's crown,
He was caught at last in an angry snare,
Because no one stood at the crossroads there,
To show him the better road.

Another day at the self-same place,
A boy with high hopes stood;
He too was set for a manly race,
He was seeking the things that were good.
But one was there who the roads did know,
And that one showed him which way to go;
So he turned away from the road that went
down,
And he won the race and the victor's crown,
He walks today the Highway fair,
Because one stood at the crossroads there,
To show him the better road.

—SELECTED.

Wee Bits on Accountancy

REGULARLY CONTRIBUTED BY LOUIS S. GOLDBERG, C.P.A., Sioux City, Iowa

Of Conflict

On the mental attitude toward conflict depend, to a large extent, success or failure, happiness or discontent, in life and in the professions.

Some seek to avoid conflict; others rejoice in it and invite it; still others chafe under it as a necessary evil. To avoid it is to shrink from life; to be annoyed by it is to miss the joy of overcoming it.

Conflict is a normal, natural, inevitable part of life. We meet it in every age, in every phase of activity, every day. There is the clash of opinion, in politics, in religion, in ideas of every kind. There is the difference in the understanding of facts, and in the inferences to be drawn from them. There is the struggle between differing schools of thought in every calling. There is the battle between the conservative and the progressive. There is the contest between action and inertia, between authority and obedience, between the ideal and the realistic. There is the conflict in moral conduct, in mental viewpoints, in spiritual beliefs.

To greet conflict joyously and to combat it valiantly is to grow and to know the thrill of achievement even in the face of seeming defeat.

Let us speak of the mental conflicts of the professions. They are of two kinds: as to facts and as to principles. What are the facts? What are the rules of the game applicable to the facts as found? Each case presents problems peculiar to itself. Shall we approach them with unthinking routine? Shall we chafe under the annoyance and bother they bring us? Or shall we welcome this mental friction as stimulating us to the entry into a new adventure?

A conflict as to facts may lead us into a search as fascinating as that for hidden treasure. A conflict as to principles may be the signal for research, for analysis, for analogy, perhaps even for the discovery of a revised application of those principles in a changing world. An end to conflict is an end also to growth, to creative effort, to life itself.

SAFEST WAY

"What is the best way to approach you for a little loan," the prodigal son asked his father.

"Well," his father answered, "if I were you, I'd make the request by telephone, then hang up before you receive an answer."

C. P. A. Examination Questions

May, 1935

Commercial Law

AGENCY

QUESTION 1:

A, as principal, employed B as his agent to perform certain duties for A, and B entrusted the performance of part of his duties, as agent, to C, without the knowledge of A. C entered into certain contracts, under his employment for A, with D. What is the law with reference to the acts of C with D binding A?

QUESTION 2:

May an agent act for both parties in any contract or other instance? If so, under what circumstances or conditions?

QUESTION 3:

If an agent, without the authority of the principal, intermingles the money of the principal by depositing it in bank in the agent's private account, and the bank fails and the entire deposit is lost, does the loss of the amount fall upon the principal or the agent? Why?

QUESTION 4:

Define: (a) Agency; (b) Principal; (c) Agent.

BANKRUPTCY

QUESTION 1:

How far is provable in bankruptcy a claim of the bankrupt's landlord for rent to accrue under a written lease having one year yet to run?

QUESTION 2:

What discretion has the trustee in bankruptcy regarding doubtful assets?

QUESTION 3:

When is confession of insolvency an act of bankruptcy? Name several other acts of bankruptcy.

QUESTION 4:

When are the following claims provable: (1) Claims arising on contract; (2) Claims against the bankrupt as indorser; (3) Judgments rendered after the filing of the petition; (4) Claims for damages for breach of contract; (5) Claims for damages for wrongs or injuries?

The Service of Examination questions conducted by The American Society furnishes practically twice as many questions in Theory, Auditing, Commercial Law and Economics and Public Finance as could be used by any State Board for a four-hour examination period, and twice as many problems in Practical Accounting as would be required for two examination periods of four to five hours each. A Board using the service makes its own selections and adds any special questions or problems which it desires. The questions in Commercial Law follow.

CONTRACTS

QUESTION 1:

Black was indebted to Brown on a judgment note in the sum of \$500 and the note was past due. Brown was about to enter judgment on the note. Green entered into an oral contract with Brown that in consideration of Brown's refraining from taking judgment against Black on the note, he, Green, would pay Brown the amount of Black's indebtedness. Green would receive no benefit from such forbearance. Brown refrained from taking judgment on the note. Green later refused to pay Black's indebtedness to Brown, and Brown brought action on the oral contract. Can he recover?

QUESTION 2:

In May, 1933, a wealthy publisher offered, through publication in his several newspapers, to award \$25,000 to the person whose plan for abating the smoke nuisance was accepted by the municipal authorities of a certain large city. In October of the same year notices of the same type were placed in the same newspapers withdrawing the offer. In November of that year, a young engineer having read the offer but not the revocation, did submit a secret plan he had evolved from much research and study, to relieve the smoke nuisance, and it was accepted and made public by the municipal authorities. He sued the publisher for the award the latter had offered. Should the suit be successful? Give reasons.

QUESTION 3:

What is the cardinal rule of construction of contracts? State six other rules of construction of contracts.

QUESTION 4:

What do you understand by the "Statute of Frauds"? Define: (a) Contract; (b) Consideration; (c) Executory contract; (d) Subrogation.

CORPORATIONS

QUESTION 1:

The directors of a domestic manufacturing corporation, owning land and machinery, pursuant to a vote of a majority of the stockholders, but against a protest of a minority, propose in good faith to sell and transfer to a new company the whole property of the corporation, taking stock in payment. The minority stockholders desire to restrain the corporation and directors from making such sale and transfer, on the ground that it will not be advantageous to the stockholders, which is a fact. They apply to you; what advice will you give them?

QUESTION 2:

There is a suit by a creditor of a de facto corporation against fifty stockholders to collect a debt of the corporation. The stockholders had in good faith attempted to incorporate under a valid law, and had honestly transacted business as a corporation, although incorporation was not complete. Are the stockholders liable as partners?

QUESTION 3:

What is the "trust fund" doctrine?

QUESTION 4:

Discuss the power the State has over corporations created by it.

INSURANCE

QUESTION 1:

Explain what amounts to an insurable interest.

QUESTION 2:

Primarily, what is the basis of the liability of members of a mutual insurance company?

QUESTION 3:

Is a contract of insurance assignable?

QUESTION 4:

Briefly define these kinds of insurance policies: (a) Endowment; (b) Tontine; (c) Assessment; (d) Old Line; (e) Blanket; (f) Voyage.

NEGOTIABLE INSTRUMENTS

QUESTION 1:

State the effect of giving authority in a note to sell collateral securities.

QUESTION 2:

Lea executed and delivered to Perrin a promissory note in the following form: "For value received, on or before June 30, 1932, I promise to pay to Stanislaus Perrin or order Nine Thousand Dollars, or at his option, give the holder all my interest in Patent XB-73941." (Signed) Leo Lea, at Baltimore, Maryland, January 1, 1932." Is the instrument negotiable in this form?

QUESTION 3:

Who is a "holder in due course?"

QUESTION 4:

Name the different kinds of endorsements. When was the "Negotiable Instrument Law" first adopted, and what is its purpose?

PARTNERSHIP

QUESTION 1:

Blaine, Bates and Bennett were partners as second-hand car dealers. By the articles, they were to share the profits equally. No provision was made as to losses. Blaine had contributed \$12,000, Bates \$8,000, and Bennett nothing, to the capital. After running a year and losing half their capital, they decided to wind up the business. As between themselves, what are their respective rights and obligations?

QUESTION 2:

Doe and Roe were copartners. Doe owed X \$4,000. To settle this account Doe gave X a note for \$4,000 signed by himself, and indorsed by him with the firm name, Doe & Roe. The note being unpaid at maturity, X sued the firm of Doe & Roe. Roe alone defended. The evidence showed that Roe knew nothing of the transaction until the note was overdue. Doe was unable to pay the note, but the firm of Doe & Roe had such ability. Was the firm liable? Explain.

QUESTION 3:

John Bradley was employed as a clerk on salary by a firm doing business as John Bradley & Company. Adams, who knew Bradley, went to the store of the firm, found Bradley, and, after talking with him alone, sold goods of the kind dealt in by the company, which later were billed to and delivered to the firm. Adams did not ask who constituted the firm of John Bradley & Company, did not know, and was not informed by Bradley. Adams sued Bradley individually for the bill. Can he recover?

QUESTION 4:

To what extent, if any, is a firm liable for the torts of a partner? Briefly define, so to differentiate, the following: (a) Limited Partnership; (b) Joint Stock company; (c) Voluntary association.

SALES

QUESTION 1:

What do you understand by the terms (a) Law Merchant; (b) Uniform Sales Act?

QUESTION 2:

Define: (1) Express warranties; (2) Implied warranties; (3) Sale.

QUESTION 3:

Zimmer, a dealer, ordered from Zander 500 cases of liquor at \$25 a case, f.o.b. point of delivery, terms of payment, thirty days. After the goods had been shipped, and before reaching destination, the seller learned that Zimmer had become insolvent, and he then stopped the goods in transitu. Zimmer had sold the liquor to Zeigler, at a profit of \$5 a case. Because of Zander's failure to deliver the liquor, Zimmer brought suit to recover the loss he had sustained. Was he entitled to recover? Give reasons.

QUESTION 4:

When does title pass under a conditional sale? When does title pass under a sale on trial or approval?

TAXATION

QUESTION 1:

What do you understand by the term "direct tax," as used in the Constitution of the United States?

QUESTION 2:

Why is it that a personal property tax is said to be a "tax on conscience"? What reforms, if any, would you advocate in the matter of taxation, State or Federal?

QUESTION 3:

Name the Federal excise taxes now in effect which directly touch almost all business concerns?

QUESTION 4:

If you believe any of the provisions of the present Federal income tax law, with respect to determining net income, are inconsistent with sound accounting, name such provisions, or as many as five.

The Report of the Secretary

To the Officers, Directors, State Representatives and Members of The American Society of Certified Public Accountants:

DURING the past year the office of The American Society has been called on by more Federal governmental departments for assistance of a more varied type than ever before. On the other hand, The American Society has been interested in a larger number of bills before Congress than in any other one year.

The Government has been increasing its accounting forces and developing departmental accounting organizations. The Certified Public Accountant is looked upon with more respect in Washington today than ever before. However, as in all other lines, there have been some unfavorable reactions growing out of the fact that in any profession there are always to be found some members who undertake to do things for which their past experience has hardly qualified them.

Recently, in talking with the head of the auditing section of a large unit, he made the comment that the mere fact that a man was a C.P.A. was not proof that he was good for much and then he went on to explain that not long since they had taken on an individual who held three college degrees, including a doctorate, who was a C.P.A. of a prominent State, who had had some business experience and in appointing the man, although it was for an accounting position, they had anticipated a wonderful find when his entire background was taken into consideration. He had proved to be a flop and because of the fact that he was utilized in an accounting capacity the C.P.A. had to be the point of attack that was made. After a discussion the bureau chief admitted that if they had utilized him for research work, largely based on the fact that he was a Ph.D., they would probably have charged his failure to his scholastic attainments. This illustrates the danger to a professional group of one undertaking to do something for which he has not been properly prepared. The chap in question should have had

more sense than to have undertaken the particular job given him.

The latest announcement concerning a Civil Service examination calls for an examination for accountants who can qualify by having a C.P.A. certificate and seven years of successful accountancy practice thereafter.

During the year, in connection with proposed legislation, The American Society found itself opposing two laws which sought to give special preference to attorneys. In one case The American Society and the National Society of Professional Engineers worked with the American Bar Association in opposition to a bill which would not have recognized the professional standing of either accountants, engineers or lawyers. Appearances were also made in connection with three other pieces of legislation in which the accountant was interested because of his relationship to the public welfare.

The various committees have functioned as will be seen by their several reports. It is never possible for an exact presentation to be made of the various committee activities, all of which have been in the interest of the profession as a whole.

Probably more inquiries have come to the office with regard to the Treasury regulation denying registration to individual accountants practicing under a company assumed name than with regard to any other single item. While in most cases the individual thus practicing looked upon the regulation as an infringement of his right to call himself by whatever name he chose, it must be recognized that the rule, in its final analysis, was one more step in placing the accountant on a professional basis by limiting the assumed name designation to those cases wherein there were at least two persons having a partnership relation, giving the nomenclature feature more nearly the same conditions utilized by the legal profession. While in legal

phraseology the word "company" does not appear in the name, the Treasury regulation has permitted its use in accountancy practice if there was an actual partnership.

During the year two new Boards of Accountancy began to use the Service of Examination Questions furnished by the Society.

President Heaton made the customary presidential tour to the West Coast and back and has given of his time on many occasions throughout the year in visiting nearby State societies. The profession has been highly complimentary with regard to the services he has thus rendered.

The Directors decided that the short-time experiment with the C. P. A. *News* last year was sufficiently successful so that it has been continued. The August issue was not sent out until the September issue was ready as it was desired to carry in the August issue a report of the Atlantic City conference.

The regular Spring meeting of the Board of Directors was held in Washington and a special meeting was held in Atlantic City at the time of the meeting of State Society Presidents. On both occasions practically the entire Board membership was present.

From the time of its organization, The American Society has placed uppermost a relatively small number of important objectives which it believed were essential to the development of the profession. It has never been so much interested in details and working methods of the Society itself as it has been with the broader principles on which a profession must grow. It has always emphasized Certified Public Accountant as the distinguishing title of professional accountancy. It has equally emphasized the importance of the State Society as the foundation stone on which all professions must be built and has encouraged as a means of strengthening State Society activities, the development of chapters within the State whereby stronger co-operative efforts could be made in localities, not only as regards the membership of the profession itself but in connection with developing a better relationship with other groups having interests in common with accountants. The third objective has been to provide a type of organization under which its officers and governing body were

truly representative of the profession due to the fact that they had been selected by a method under which the individual member was a factor in initiating the steps which finally resulted in their election.

At the Atlantic City meeting the position of The American Society with reference to the profession as a whole was ably presented by the Committee on One National Organization, President Heaton and Past-Presidents Peisch and Ellis.

At the annual meeting a year ago an Endowment Fund Committee was appointed. It was suggested that the attention of certified public accountants be called to the desirability of remembering The American Society in their wills to an amount of \$100.00 for the purpose of establishing a fund which would enable it to maintain a more extensive professional service as the years go by.

Many reported that they had carried out the suggestion and checks to the amount of \$565.00 were received. That amount plus earnings of \$7.50 as of August 31 appears in the annual financial statement.

During the year the following members have rendered their final earthly accounting:

Alexander H. Abrahams, Alabama.
Robert Atkins, New York.
Anthony F. B. Becker, New York.
J. W. R. Bradford, Ohio.
Edward Brady, California.
James J. Burns, Pennsylvania.
Harry Edward Crable, Colorado.
Homer A. Dunn, New York.
Joseph Haag, New York.
Albert Edward Hamilton, California.
Andrew B. Lawson, Tennessee.
Samuel H. Lesh, Indiana.
A. F. Lindberg, New York.
T. W. Mathews, Virginia.
John B. McCabe, North Carolina.
R. J. George Oliver, Connecticut.
C. Edwin Oyster, California.
R. K. Ogle, District of Columbia.
M. E. J. Papke, Illinois.
William E. Poole, Jr., Illinois.
J. H. Trapp, Arkansas.
Thomas N. Willins, New York.

The Society recently suffered its first loss of a past-president. Homer Adams Dunn was the first First Vice-President of the Society. Declining several times the

wishes of the membership that he accept the presidency, he finally acquiesced in the suggestion that he be elected even though he felt the necessity of resigning at the same meeting, which election automatically made him a member of the Advisory Committee. It is generally known by those who have been officially connected with the Society that the present Secretary leaned more heavily on the advice of Homer Dunn than of any other individual. His long and wide experience furnished a background for illustrating every situation that arose and his keen interest in the profession led him to devote many, many hours to a thoughtful consideration of the problems involved and then many more hours in assisting to work out those problems. The rank and file of the profession will never know the immense debt which it owes to our departed friend and co-worker for his loyalty. He never thought of what he could get out of the organization but rather how much he could put into the organization.

As of September 1, 1934, the membership of The American Society was 2,092. During the year the losses have been: by death, 22; by resignation, 68; and 70 have been dropped. The accession of new members and reinstatement of old members totaled 197, leaving a membership of 2,129 as of August 31, 1935.

The Secretary expresses his appreciation of those who as staff members, Society members or officials have been part and parcel of the efforts put forth during the past year to advance the profession through instrumentality of The American Society.

Respectfully submitted,

D. W. SPRINGER, Secretary.

Report of Committee on Relations with State Organizations

This year being a legislative year, the profession has been more interested in matters naturally following under the purview of the committees on State and Federal Legislation rather than under the jurisdiction of this committee.

The most important professional item which, while not under the guidance and direction of this committee, should be referred to in its report, relates to the meet-

ing of State Society representatives held at Atlantic City on the call of the New York State Society of Certified Public Accountants. Representatives of 41 State organizations spent two days in considering the general relationship of State societies to national organizations. This was a larger representation of accountancy professional groups than had ever been gathered together before. The underlying topic for discussion was the advisability of attempting to secure a single national organization for the profession. It was recognized that in the final solution of that problem, however, State societies had a fundamental interest. While that meeting had no authority, it did, as is noted in another committee report, recommend to both of the present national organizations certain points which in their judgment should be considered in reaching a final determination as to the advisability of a single national accounting organization.

Respectfully submitted,

THOMAS A. WILLIAMS, Chairman.

Report of Committee on Natural Fiscal Year

Your Committee on Natural Fiscal Year forwarded the following Resolution to the United States Chamber of Commerce in April, 1935, for consideration at its annual meeting, which Resolution, we are informed, was referred by the Chamber to its Finance Committee, with power to make a checking during this year; however, it is believed that Congressional work has prevented any activity being taken on this matter as yet:

"Whereas it has been the custom for many years for business concerns to close their fiscal years on December 31, and to prepare financial statements covering the work of the year thus closed, and

Whereas a movement has been under consideration for twenty years, and very actively pushed by some business executives, bankers and certified public accountants during the last ten years, looking toward the more general adoption of a natural business year, and

Whereas the adoption of a natural business year by a business is recognized

as having many advantages, especially in making the financial statements more reliable and useful to executives, bankers and governmental agencies, and

Whereas chambers of commerce, credit associations, bankers' and accountants' societies in many communities have during the last several years adopted resolutions favoring the adoption of a natural business year by those business enterprises to whom an advantage would accrue, and

Whereas the Chamber of Commerce of the United States has had the question under consideration from time to time by committees, which have made a special study of the subject, and they have been during the last three or four years favorably inclined toward the movement; therefore

Be It Resolved by the Chamber of Commerce of the United States in annual convention assembled, that its officers and members be advised to recognize the natural business year movement as one beneficial to the best interests of business in the United States; and that they be asked and urged to encourage and promote it in such ways as they may deem expedient."

This committee has yet to hear from the Representatives in each State, as to what action was taken in connection with this work by their State associations, and therefore, requests that the Society, through its officers, obtain a report from the various states, as to what progress has been made to influence the business interests on this subject.

Mr. H. T. Scovill of Illinois is entitled to all the credit for any work that has been done during the past year by this committee.

Respectfully submitted,
THOMAS H. EVANS,
Chairman.

Report of Committee on Cooperation With the National Association of Credit Men

The Committee on Cooperation with the National Association of Credit Men reports that a number of well-attended meetings were held throughout the country

during the fiscal year. There were joint meetings between the State Societies of Certified Public Accountants and the local group of Credit Men. Goodwill, a closer association, and the discussion of various subjects which brought out a better understanding of the other fellow's problems were the practical results of such meetings.

Respectfully submitted,
ALEXANDER F. MAKAY,
Chairman.

Report of Committee on State Legislation

Our esteemed Secretary has kept you informed throughout the year on the sundry proposals, successful and unsuccessful, for amending the various State C.P.A. laws. Your committee does not feel that anything could be added here by again presenting that material.

According to our By-laws, your committee is charged with the duty of "keeping informed of all proposed or pending legislation in any of the states which may affect the interest of public accountants and to advise, counsel, and on request give assistance to State organizations and/or State boards." Your committee has kept informed through inquiries among its members and members of State boards and by information contained in the *C. P. A. News*.

We deem it the duty of the Committee on State Legislation to assist in the development of ideas for the best form of accountancy legislation. While this function is not expressed in the By-laws, we feel that it may be fairly implied.

We are of the opinion that we may not rest upon the so-called model act approved some few years ago, but must constantly be on the alert for improvements not only in form but in the underlying principles expressed by that form.

Your committee last year propounded in its report several questions for discussion hoping to obtain from the members sufficient response to gain an accurate picture of the Society's opinions on these questions. The following theories relating

to State legislation have been developed by your committee through a study of the question over the past year.

While it is probably desirable that the practice of accountancy be restricted at some future time to accountants supervised under the authority of the State law, yet because of varying conditions in the different states, the time and manner of arriving at this goal must vary.

Of almost equal if not surpassing importance to accountants is legislation not having to do directly with the regulation of accountants. Some states have laws providing for performance of a great amount of auditing by State agencies and have other laws detrimental to the progress of the C.P.A. by limiting his field. Your committee is of the opinion that efforts should be directed with equal force in efforts to gain the enactment of favorable legislation of this kind or in making an effort to repeal unfavorable laws already on the books.

Your committee recommends that before any attempt is made to amend or enact a new C.P.A. law, the whole subject of legislation affecting accountancy be given careful study; that the various proposals shall be correlated, and a program mapped out that will attain the desired result even though it may take several years for accomplishment. After a State organization has decided what legislation is desirable, careful consideration should be given to the appropriate time for presentation and to the particular means by which the end is to be accomplished.

Respectfully submitted,

JESSE L. CRAMER

L. C. DODGE

CHESLEY S. GOLDSTON

FRANK S. HECOX

CHARLES L. LINDER

CHARLES LUMBARD

C. WHITFORD McDOWELL

IRVILLE A. MAY

HOMER L. MILLER

FRANK L. WILCOX

ERNEST WILLVONSEDER

LYLE W. HINES, Chairman.

Report of Committee on Calendar Simplification

Your Committee on Calendar Simplification has nothing of importance to report for the past year.

Your Society has requested that the question of a simplified calendar be again discussed by the International Conference of the League of Nations which will convene in this year at Geneva.

Respectfully submitted for the Committee.

J. H. SCHMIDT,
Chairman.

Report of Committee on Classification and Certification of Accountancy Services

Your Committee on Classification and Certification of Accountancy Services reports as follows:

The most significant development with respect to classification and certification of accountancy services since the last report of this committee has been the specification of the Securities and Exchange Commission with respect to the certification of those financial statements which constitute an important element of registration under the Securities Act of 1933, as amended.

The specification, enunciated by the Commission as of January 15, 1935, in connection with Form A-2 for the registration of new securities of seasoned corporations under the Securities Act of 1933, requires that "the certificate shall be dated, shall be reasonably comprehensive as to the scope of the audit made, and shall state clearly the opinion of the accountant or accountants in respect of the financial statements and of the accounting principles and procedures followed by the registrant." The specification was made applicable, as of March 28, 1935, to certifications by accountants through Release No. 324, Class C, amending Article 15 of the original regulations governing certifications by the Federal Trade Commission. The wording of the amended Article 15 is the same as the passage above quoted,

but there is an additional provision as follows:

"If anything comes to the attention of such accountant, or he obtains knowledge of any facts before the effective date of the registration statement which would make any of the material items therein untrue, or indicate there was an omission to state a material fact required to be stated, or necessary to make the statements therein not misleading, he shall bring such immediately to the attention of the Commission."

Thus, there is a new and specific duty imposed upon accountants by these regulations governing certifications, namely, that "a certificate shall state clearly the opinion of the accountant in respect of the financial statement of and the accounting principles and procedures followed by the registrant." That these are not careless or unconsidered words has been demonstrated repeatedly in contact with the Commission since the promulgation of the amended regulation. It is no longer possible successfully to insert into certificates, ahead of the opinion paragraph, inconclusive references to, or explanations of, accounting principles and procedures followed by the registrant.

This change in requirements seems to eliminate the theory on which many accountants have predicated their practice of certification since the Securities Act of 1933 was passed, namely, that the thing essential to financial statements is adequate disclosure of all material facts, and the omission of no material facts which would render the financial statements misleading. When the practice of a registrant was to follow the specifications of a certain classification of accounts, resulting perhaps in a somewhat unusual treatment being accorded to certain items, or when the registrant had been following consistently for several years certain procedures coming within the area of mooted or debatable questions, or where a registrant has insisted in according his own treatment to a certain item with which treatment the accountant did not agree, it was thought to be sufficient if the accountant inserted into his certificate, prior to the opinion paragraph, an explanation of the items or treatment in question, with the purpose of

directing the attention of the reader to the situation existing.

Contact with the Securities and Exchange Commission in the matter of certification of financial statements constituting part of a registration statement indicates that such procedure no longer is acceptable to the Commission. The fair inference appears that the Commission will require accountants, in their certificates, to state with respect to questionable items whether, in their opinion, the items have been treated in the financial statements in accordance with accepted accounting principles. If, in the opinion of the accountant, such items have not been so treated, the accountant will be required to so state, and, in addition, to show the effect on all pertinent figures in the financial statements of so changing the figures as to make them reflect the results of treating the items in accordance with accepted principles of accounting. The difficulty involved, in so far as the accountant is concerned, is in finding a code of accepted principles which will serve such purpose.

The foregoing observations relate at the present time to certifications of financial statements included in registrations and to certifications accompanying financial statements filed with the Securities and Exchange Commission by corporations under what is known as Form 10. It is not unlikely that the same regulations and interpretations may be expected to apply in due time to annual reports of corporations to the Securities and Exchange Commission and to the annual reports of corporations to be issued to shareholders.

Respectfully submitted,

(Signed) PHILIP F. ALTHER.

SETH HADFIELD.

EDWARD P. MOXEY, JR.

WILLIAM A. PATON.

JOHN R. WILDMAN, Chairman.

Report of the Endowment Fund Committee

Your committee was appointed the early part of the year. The matter of sending out a letter to all Certified Public Accountants was deferred until the Board of

Directors had an opportunity to approve the plan on April 30, 1935. Under date of May 15th the following letter was submitted, signed by all members of the committee:

May 15, 1935.

"To All Certified Public Accountants:

"The present always looms so large that the past, for all practical purposes, is blotted out. The future is both dim and very, very far off. History, however, teaches us that no matter how permanent the present may seem, we must plan for the future, because the structure of the present will soon fall and decay. One of the wisest of all writers put it thus, 'Where there is no vision the people perish.'

"What of our own Certified Public Accountant profession? It has reached its present point of vantage only through the sacrifice and struggle of many of those who have already passed on to their reward. That the accountancy profession could ever be threatened or forced out of the picture seems unbelievable to most of us. And yet, within the past few years the C.P.A. law has nearly been repealed in more than one of our states.

"Every Certified Public Accountant has invested time, if not money, in order to obtain his certificate. It has meant, generally speaking, the spending of many of the best years of his life in order to acquire it. The livelihood of many of us is more or less dependent upon both its protection and what it stands for today.

"What of the future, and who will protect it? Practically every State and territory now has its society of certified public accountants. Generally speaking, all are doing a constantly better piece of work. The practice of the Certified Public Accountant has, however, many inter-state problems, involving Federal laws and Federal statutes. The one organization limited in membership to certified public accountants and devoted to the promotion of the Certified Public Accountant profession throughout the entire Union is The American Society of Certified Public Accountants. There never was a time when there was so much need for helpful assistance to the various State Societies, or such need for promotion of the interests of the Certified Public Accountant throughout

the United States as at present. The annual dues provide a current fund. What is needed is an endowment fund to furnish permanently additional income and to protect permanently the interests of the Certified Public Accountant.

"You may well say, 'What has this to do with me, or how do I know that the funds will be well administered in the future?' The answer is plain. The membership of The American Society is limited to Certified Public Accountants. Its principal officer,—namely, the President, serves but one year; its form of nomination and election is by mail ballot; and it is 100% democratic. The American Society will always represent the intelligence and the character of the certified public accountants themselves. Each one of us at the present time will determine that, and our successors in the profession will determine it in the future.

"The American Society at its annual meeting in Atlantic City last September, decided to establish an endowment fund. An Endowment Fund Committee has been appointed. The committee, at this time, is not urging large remembrances from its members, but is asking each Certified Public Accountant of the United States, whether a member of The Society or not, to remember in his will The American Society to the extent, say, of \$100.00. During the thirteen years of the history of The American Society, 207 members have heard the call of the Great Accountant. Not one has remembered The American Society or left anything, in a material way, to perpetuate its work. Your committee believes that if Certified Public Accountants throughout the country would decide to remember The American Society in their wills, it would create an interest that would not only provide a necessary fund for future generations, but would at the present time awaken an interest in the profession and a recognition of the fact that the Certified Public Accountant certificate needs protection, which would result in a tremendous advance for the profession. Incidentally, certified public accountants are inclined to procrastinate. Many receiving this letter have not made a will. If this letter will result in these members making a will, their families will

be better protected than if they die intestate.

"The Endowment Fund Committee of The American Society will appreciate very much expressions of opinion from those receiving this letter.

"This letter is sent to you pursuant to a resolution of the Board of Directors passed on April 30, 1935."

Your committee has been pleased with the reaction to said letter. While the known material results have been small, we are convinced that the benefits which will come therefrom will not be known for years to come.

It has been the experience of committees of this kind where the appeal is made to a large group that the replies are necessarily very disappointing during early years. It is our own hope that the "Grim Reaper" may spare those who have remembered this fund in their wills for decades at least. We have had a few cash contributions and, I am certain, will receive others during the months to come.

The first letter, as noted, went to all Certified Public Accountants. It was the plan of the committee to send out a second letter. At the request of President Heaton, the matter of this second letter has been postponed until the new Board of Directors meets. If this letter had been sent out, it was the intention to ask, among other things, for the consideration of an insurance plan in varying amounts. Assuming that \$500.00 insurance was taken, it was the thought, at least of certain members of our committee, that The American Society should be named as beneficiary for \$250.00, and the local State Society for a like amount.

In conclusion, your committee desires to express their thanks to the members for their many kind expressions of interest in the Endowment Fund.

Respectfully submitted,

WILLIAM J. CARTER
RALPH W. E. COLE
J. ARTHUR MARVIN
PAUL R. STROUT
JOHN B. TANNER
ARTHUR UPLEGER
FRANK WILBUR MAIN, Chairman.

Report of the Committee on Governmental Accounting

Two years ago a Committee on Municipal Accounting was appointed to cooperate with the National Committee on Municipal Accounting which was then being organized. The report of your committee at this time, therefore, is a report of the progress of the National Committee on Municipal Accounting. We cannot urge you too strongly to continue your active cooperation with this committee in order that the final results may reflect the experience and thought of the certified public accountant.

The American Society of Certified Public Accountants has always been concerned with the establishment of uniform municipal accounting. There are some members who, because of a lack of a complete understanding of the nature and scope of uniformity intended, are apprehensive as to the practicability of the plan. These people have in mind the great difference in the size of cities and the varied local conditions encountered. Obviously uniformity is not attainable as far as detailed methods of local accounting procedure are concerned except, perhaps, within a reasonably homogeneous group of cities, generally smaller ones, and villages. A high degree of uniformity in municipal accounting can be attained, however, irrespective of the size of the city and local conditions, by (1) the use of common and consistent terminology, (2) the application of recognized accounting principles, (3) the adoption of a uniform classification of revenue, expenditure and balance-sheet accounts and (4) the use of properly designed reports.

The National Committee on Municipal Accounting, in cooperation with the committee of this Society, has been engaged in a comprehensive study of these matters and to date has published reports thereon in pamphlet form as follows:

- No. 1—*Principles of Municipal Accounting* (Revised and restated in No. 5)
- No. 2—*Suggested Procedure for a Detailed Municipal Audit*
- No. 3—*A Bibliography of Municipal Accounting*

No. 4—*Municipal Accounting Terminology*

No. 5—*Municipal Funds and Their Balance Sheets*

ACCOUNTING PRINCIPLES

The Committee prepared a statement of principles of municipal accounting which were published in Pamphlet No. 1. This statement has been revised and amplified after further study and after giving consideration to the suggestions of members and others and has been republished as an appendix to the Committee's report on *Municipal Funds and Their Balance Sheets*. The statement is self-explanatory and does not call for further comment at this time. Because of the importance of this statement of principles and the Committee's desire to have the comments and suggestions of the members of this Society, a reprint follows:

1. The accounts should be centralized under the direction of one officer. He should be responsible for keeping or supervising all accounts and for preparing and issuing all financial reports.
2. The general accounting system should be on a double-entry basis, with a general ledger in which all financial transactions are recorded in detail or in summary. Additional subsidiary records should be kept where necessary.
3. The accounts should be classified in balanced fund groups. The group for each fund should include all accounts necessary to set forth its operation and condition. All financial statements should follow this classification.
4. A common terminology and classification should be used consistently through the budget, the accounts, and the financial reports.
5. The following classification of funds is recommended: (1) General, (2) Special Revenue, (3) Working Capital, (4) Bond, (5) Special Assessment, (6) Sinking, (7) Trust and Agency, (8) Utility. Other funds may be established where specific activities require separate accounting. Cash, whose ultimate use has not been determined, may be included temporarily in the Trust and Agency

funds or carried separately in suspense accounts.

6. A clear segregation should be made between the accounts relating to current assets, liabilities, and operations, and those relating to fixed assets and liabilities. Asset accounts for permanent property not available to meet expenditures or obligations should be segregated from other fund assets and the equity represented by them not included in the current surplus of any fund. Revenues should be classified by fund and source; and expenditures by fund, department, activity, character, and object, in accordance with standard classifications.
7. The general accounting system should include budgetary control accounts for both revenues and expenditures.
8. As soon as purchase orders or contracts are signed, the resulting obligations should be entered at once as encumbrances of the funds and appropriations affected.
9. The use of the accrual basis in accounting for revenues and expenditures is recommended so far as practical. Revenues, partially offset by allowances for estimated losses, should be taken into consideration when earned, even though not received in cash. Expenditures should be recorded as soon as liabilities are incurred.
10. Although depreciation on general municipal property may be omitted in the general accounts and reports, it should be considered in determining unit costs if a cost-accounting system is used.
11. The accounting for municipal business enterprises should follow the standard classifications employed by similar private enterprises. Each college, hospital, library, and other public institution should follow the standard classification applicable to its accounts.
12. Inventories of both consumable and permanent property should be kept in subsidiary records controlled by accounts in the general accounting system. The fixed asset accounts should be maintained on the basis of original cost, or the estimated cost if the original cost is not available, or, in the

case of gifts, the appraised value at the time received. The computation of depreciation on general municipal property is not recommended, except for unit cost purposes, unless cash for replacements can legally be set aside.

13. There should be general uniformity in the financial reports of all municipalities of similar size and type.
14. Financial reports should be prepared monthly or oftener, to show the current condition of the budgetary accounts and other essential information. At least once each year a general financial report should be prepared and published or otherwise made available for public examination.
15. A periodic audit by independent accountants is desirable.

MUNICIPAL FUNDS AND THEIR BALANCE SHEETS

The National Committee's report on this subject is published in Pamphlet No. 5.

The Funds: The Committee disapproves the use of a large number of funds. In some municipalities as many as forty separate funds are required by law. Special tax levies for the support of certain services bring this about. Budgeting and accounting cannot be adequate under such conditions. Neither can municipal officials use their initiative or intelligence. Once a tax levy has been made for a specified purpose, the amount cannot be increased or decreased regardless of the merits of the situation and regardless of the available balances or deficiencies in other funds.

One general fund should be used for all current activities of a municipality. The only other funds employed should be those dictated by their special nature such as working capital fund, bond fund, special assessment fund, sinking fund, trust and agency fund, and utility fund. The current year's budget and its financing should be looked upon as a unit, not as a collection of segregated special fund transactions. The Committee therefore recommends the abolition of special tax levies for various municipal services and the use of one general fund for the current budget activities. It is recognized that this recommendation is in conflict with the legal requirements in many cities. The situation is nevertheless one that should be corrected whenever

the opportunity is presented.

Balance Sheets: The section of the National Committee's report relating to balance sheets merits your careful consideration. There are several matters to which your attention is particularly directed.

There is considerable lack of uniformity in the present practice of handling of "Surplus" in the balance sheet. The Committee recommends that the surplus of each fund be shown separately. No one figure can exhibit the surplus of all funds. The difference between properties and debt is sometimes called "Surplus" and combined with the surplus of the funds to make one grand total of "Surplus." This practice is particularly misleading.

It is the judgment of the Committee that a separate balance sheet should be prepared for each fund. No consolidated balance sheet should combine in one figure the similar accounts of all funds. For some purposes it may be helpful to exhibit the accounts of all funds in parallel columns in one statement. Even in such cases the totals for all funds should not be combined. The resulting figures can only be misleading because each of the funds must be considered separately. For instance, no disposition of "Cash" can be made for all funds. Again, the total current assets must be considered in relation to the liabilities—not of all funds but of each particular fund. Further proof is found when we consider that, under no conditions, should the cash or other assets of the Bond Fund, Special Assessment Funds, Sinking Funds, or Trust and Agency Funds be used for the General Fund or any other fund.

For many years we have considered the place of fixed property and debt accounts in the balance sheets. No general agreement on policy was ever reached. The National Committee has tentatively advised that the property and debt accounts be taken from the fund balance sheets except in case of municipal utilities and those fixed assets used in working capital funds.

The inclusion of fixed assets or fixed properties in the General Fund makes it difficult to display properly the surplus. Furthermore, since a fund is defined as a sum of money or other resources set aside

for the purpose of carrying on specific activities or attaining certain objects, it is impossible, under this definition, to put fixed asset accounts in the fund accounts.

When fixed property accounts are shown in a fund balance sheet, the bonded debt is usually shown also and the difference between the two called "surplus" or included in one total figure of surplus—current and capital combined. The committee has recommended that the property accounts be set up independently of any fund. They should be properly classified and offset by a statement of the means of financing their construction or acquisition. Likewise the bonded debt accounts, except for utilities, should be set apart from the funds and the property accounts, and the debt offset by an account "Amount to be Provided for the Retirement of Bonds." There has been less general agreement on the disposition of property debt accounts than on other matters. However, a growing number of cities are following the practice the committee suggests. The true purpose of balance sheets is to present information from which decisions can be made. This can be done only when the surplus account is properly stated. The committee therefore recommends that, in addition to keeping the property and debt accounts out of consideration in arriving at the General Fund "Surplus," that the latter be divided to show what part of the disclosed surplus will be available for appropriation within the next twelve months and what part subsequent to twelve months.

MUNICIPAL ACCOUNTING TERMINOLOGY

The recognition and use of a common terminology is essential to uniform municipal accounting, as mentioned before. The committee therefore directs your attention to the National Committee's report on this subject. The terminology was prepared by a special committee of which Professor Lloyd Morey was chairman. This committee is anxious to have your criticism and suggestions on this publication.

FINANCIAL REPORTS

The National Committee is engaged at the present time in the preparation of its preliminary report on Financial Statements which should be in the hands of the So-

ciety's Committee on Municipal Accounting in the near future for criticism and suggestions. This is also the status of the report on the classification of revenues and expenditures. To meet the demands for material relating to special assessment accounting and to the accounting for utilities of the smaller municipalities, the National Committee has included a report on these subjects in its program and the work thereon is now under way.

PROGRESS IN MUNICIPAL ACCOUNTING

Many active movements are now under way to improve municipal accounting. The work being done through our own Society and the National Committee on Municipal Accounting is the broadest in scope and is, in a large part, responsible for much of the revived interest in municipal accounting. The League of California Municipalities has just received a preliminary report from a special committee of that group. The Florida League of Municipalities has a committee and is working along similar lines. A recent act of the Pennsylvania Legislature prescribes uniform reports and budgets for third-class cities. Kansas enacted a strong municipal accounting law in 1935 which is being administered by A. R. Jones, C.P.A., State Budget Director. Both Oregon and Idaho also have new statutes relative to municipal accounting and auditing. All of these groups are making extensive use of the material prepared by the National Committee on Municipal Accounting.

We sincerely urge you to study carefully all of the tentative reports of the National Committee. When you have done so, be sure to let us have your comments. All of the work will be revised and edited at a relatively early date, and it should at that time reflect the experience of you men who are engaged in municipal accounting practices. Only in this way will the report be just what we want it to be.

GEORGE P. ELLIS, Chairman

J. WILLIAM HOPE

GEORGE B. HAMILTON

EDWARD J. FILBEY

ERIC L. KOHLER

EDMUND R. STEWART

GEORGE H. KINGSLEY

T. COLEMAN ANDREWS

H. W. CARROLL

Financial Statements

EXHIBIT A COMPARATIVE BALANCE SHEETS AS OF AUGUST 31 The American Society of Certified Public Accountants

Assets	1935	1934
Current:		
Cash, Bank	\$ 1,491.28	\$ 1,918.80
Imprest Cash	900.00	900.00
Bills and Accts. Receivable	184.38	30.00
Prepaid Expense	743.20	668.49
Endowment Investments.	572.50	
	<u>\$ 3,891.36</u>	<u>\$ 3,517.29</u>
Fixed:		
Furniture and Fixtures.*	2,080.12	\$ 2,320.99
Library	3,102.54	2,970.24
Capital Stock of A. P. Co.	4,970.00	4,970.00
	<u>\$14,044.02</u>	<u>\$13,778.52</u>
Liabilities and Net Worth		
Dues Paid in Advance..\$	236.75	\$ 82.50
Accounts Payable	68.32	
Endowment Fund	572.50	
Net Worth (Exhibit B).	13,166.45	13,696.02
	<u>\$14,044.02</u>	<u>\$13,778.52</u>
*Cost	\$6,433.27	
Depreciation ...	4,353.15	
	<u>\$2,080.12</u>	

EXHIBIT B

ANALYSIS OF NET WORTH		
Fiscal Year Ending August 31, 1935		
Balance Aug. 31, 1934		\$13,696.02
Debit:		
Depreciation	\$450.33	
Net Loss (Ex. C).	153.95	\$604.28
Credit:		
Prepaid Expense		
Diff.	74.71	529.57
Net Worth August 31, 1934 (Ex. A)		<u>\$13,166.45</u>

EXHIBIT C

REVENUES AND EXPENSE		
Fiscal Year Ending August 31, 1935		
Revenues		
Dues:		
Advance Payments	\$ 82.50	
Collections	29,211.85	\$29,294.35
Miscellaneous		1,396.23
		<u>\$30,690.58</u>

Expenditures

Secretary's Office:		
Salary	\$4,800.00	
Staff	5,649.00	
Supplies	271.98	
Rent	1,634.40	
Telephone & Telegraph..	253.02	
Miscellaneous	148.19	\$12,756.59
Printing		1,482.07
Postage		1,435.35
Travel		817.26
Accountants Publishing Co.		7,992.38
Officers and Directors		
Expense		3,440.52
Convention Expenses		656.52
Committee Expenses		469.01
Ins., Taxes, Bonds, Audit, Etc.		289.80
Contingent		1,505.03
		<u>\$30,844.53</u>
Net Loss (Exhibit B) ..		<u>153.95</u>

EXHIBIT D

COMPARATIVE BALANCE SHEETS AS OF AUGUST 31		
The Accountants Publishing Company		
Assets	1935	1934
Cash, Bank	\$ 501.16	\$ 394.60
Advertising	207.50	
Furniture & Fixtures	1,000.00	1,000.00
Mailing List	4,000.00	4,000.00
	<u>\$5,708.66</u>	<u>\$5,394.60</u>

Liabilities and Net Worth		
Accounts Payable	\$ 600.00	
Capital Stock	5,000.00	\$5,000.00
Surplus	108.66	394.60
	<u>\$5,708.66</u>	<u>\$5,394.60</u>

EXHIBIT E

REVENUES AND EXPENDITURES		
Fiscal Year Ending August 31, 1935		
Revenues		
Subscriptions and Sales ...	\$9,902.75	
Advertising (Net)	2,815.99	\$12,718.74

Expenditures		
Editorial	\$2,700.00	
Staff	2,705.00	
Printing	5,557.45	
Postage	1,034.98	
Rent	909.50	
Miscellaneous	97.75	13,004.68
Net Loss		<u>\$ 285.94</u>

News Behind The News

By PAUL MALLON

A Syndicated Article Appearing June 12, 1935

DEXTERITY — Some fairly fancy bookkeeping has been done on Treasury ledgers in the past. The Republicans often were proud of the neat ways in which they made the Government accounts give the best possible picture of their situation.

It is now evident they were amateurs. There has never before been recorded such an exquisite degree of perfection as has been exhibited lately.

Consider, for instance, the fact that the working balance of the Treasury increased by \$300,000,000 over a holiday recently when no money was coming in and nothing was going out. You know a Treasury accountant has to be good to show a profit of more than a quarter of a billion dollars while the Treasury is closed.

PENMANSHIP — There appears to have been nothing particularly wrong about the transaction. What happened on the inside was that a bright Treasury lad discovered that the books were carrying reserve funds of the post office. TVA, HOLC, FCA and a few others in special accounts as money already spent. He found out this money was being spent slowly. Why not put it back in the Treasury till as cash on hand until the other bureaus drew on it?

A holiday was selected for the re-transfer. As a result, the Treasury closed May 29 with only \$702,380,084.50 in the Treasury cash box and opened May 31 with \$1,029,402,625.03 therein. A stroke of the pen, acting like a fairy wand, had deposited exactly \$327,022,540.53 when no one was looking.

GOOD—Thus, the Treasury was able to beat its breast proudly in the announcement made last Monday regarding a new offering of notes and conversion of an old one. In a technical sense, the Treasury prospectus for its note issue made its cash position appear to be about 25 per cent better than it was.

The Securities and Exchange Commission is supposed to get after any private corporation that fails to present facts accurately in its prospectus on bond issue, but there is little likelihood that it will proceed against its brother department in the New Deal.

For one thing, the Treasury will contend that its hocus-pocus was legitimate, good business. For another thing, it will say there was no connection between the ledger-de-main (correct) of May 30 and the June 15 financing. These explanations may be argued indefinitely, but business men will agree that, inasmuch as the Treasury boys got away with it, it was "good," and even if they had failed to, it was "smart."

Two Days in the Week to Worry

"Bob" Burdette, the Burlington *Hawkeye* man, a columnist of yesterday, expressed some practical philosophy in his book "The Golden Day," which could be made of more avail and in our time, than in his:

There are two days in the week upon which and about which I never worry. Two carefree days kept sacredly free from fear and apprehension. One of these days is yesterday. Yesterday, with all its cares and frets, with all its pains and ashes, all its faults, its mistakes and blunders, has passed forever beyond the reach of my recall. * * * And the other day I do not worry about is tomorrow. Tomorrow with all its possible adversities, its burdens, its perils, its large promise and poor performance, its failures and mistakes, is as far beyond the reach of my mastery as is its dead sister, yesterday.

Advertising

Advertising experts do not select as slogans or prominent features to be de-

veloped in an advertisement anything which in their judgment does not have a definite and distinguishing drawing power so far as the supposed reader of the ad is concerned.

One of the local real estate concerns in the city of Washington, where, as is well-known, the alphabet has been utilized over and over in connection with newly established governmental groups, has been running at the head of ads the slogan "Our Own Dictionary of Abbreviations." The other day the initials used were C.P.A., followed by the statement "You think this means Certified Public Accountant. Clients of this office have acknowledged that we give to these letters a most effective new meaning," and then the ad proper goes on to state that "Cash Profit Achieved" is the particular service they have in mind.

Any business concern that regularly employs a certified public accountant and gives him authority to not only determine questions centering around accuracy of records but desires as well such interpretation of those records as the experienced accountant can give, will find that, as this real estate concern announced, a cash profit has been achieved.

At about the same time, from Illinois comes a copy of a full page ad appearing in the *North Shore Shopper* in which C.P.A. is the line utilized for the purpose of attracting the eye of the reader. This time it refers to Courteous Prompt Attention, which the purchaser is supposed to get at the particular store furnishing the ad. Not a bad suggestion to the independent practitioner. More than one client has been lost to an accountant by reason of the lack of courteous prompt attention to which every client is entitled when he is seeking the services of a C.P.A.

We have received an outline of the accounting services rendered to business concerns by students in the department of accounting at Atlanta University. The department of accounting is under the supervision of J. B. Blayton, a colored C.P.A. who received his certificate from the State of Georgia by examination in 1928.

He is senior member of the accounting firm of Blayton, Adair & Company, Cer-

tified Public Accountants, and is executive vice-president of the Citizens Trust Company of Atlanta.

The laboratory work which students secure is obtained by rendering services for certain business concerns for which they are not paid. During the five years, the period covered, ninety different concerns covering thirty different types of business, cooperated in furnishing this type of experience.

It is interesting to note that Blayton is able to render a service to students in his courses of a somewhat similar character to that furnished in several institutions in other parts of the country.

The *Curtis Courier* recently gave an illustration of the fact that it is better to be for something than against something:

The man who is always against something, or on the defensive, is apt to occupy the weaker position. It pays to be the positive, aggressive, driving, attacking person. The ethics of the East Indian who went to his lawyer regarding a summons he had received for the payment of £200 on a promissory note which seemingly bore his signature may have been quite off color. No moralist would defend his action. But psychologically he was sound.

His lawyer asked him whether he had signed it.

"No!" replied the Indian. "It's a forgery!"

"Then," said the attorney, "I will plead to that effect."

His client turned to him swiftly, his little eyes gleaming.

"No, no!" he exclaimed. "You must not plead that I didn't sign the note. Mohammed (the plaintiff) will bring six witnesses to say that they saw me sign it. You must plead that I paid the note, so that I may bring six witnesses to say that they saw me pay it!"

Now that the NRA has been relieved of its crack-down features, a story is told by the president of the Maryland Hotel Men's Association.

State associations of forty-seven of the States signed the code. Maryland was the only State that was never under the control of General Johnson, so far as its

hotels were concerned. When asked to sign the code the president of the State association notified Washington that if the Federal Government would send him \$100,000, which he agreed to spend in any way that they wanted him to, he would agree to either send back one per cent of the money or they could cancel the debt and then if they would send him another \$100,000 he would try the second year. Every hotel in Maryland, from forty rooms up, signed an agreement not to accept the code and they all stood together. Their claim was that operating a hotel was not an industry, it was a service.

What is profit? *Harper's* for February, 1932, contained an article by Henry Pratt Fairchild in which he noted that the reward for land is rent, for capital interest, for labor wages, for management salaries, and then added "Profit is not the return for ownership of capital, nor of land, nor of labor, nor of management." According to that standard profit is that which a man gets for nothing. That for which he does not render an equivalent service. By that standard profit is the return obtained from cheating the other fellow, for utilizing a poor quality of material in manufacturing and charging an excessive price therefor, returns from food adulterations, from stock waterings, from the sale of bad securities would all, by that standard, be classified as profit. It is probably the standard by which most of the present-day discussion regarding profits is being measured. Profits of that sort should be abolished. May we not say that profit is the reward for an intelligent coordination of all the factors referred to, no one of which, except as utilized in connection with the others, would produce a return in the form of rent or interest or wage or salary.

About a year ago the National Society of Professional Engineers was organized for the purpose of representing active practitioners and securing a unified engineering voice.

The National Society of Professional Engineers is the only national organization in which membership is limited exclusively to Professional Engineers,—those

who have been qualified by statutory authority and admitted to practice in the engineering profession.

There is a larger number of engineering societies than is to be found in any of the other professions, naturally the result of the fact that engineering is a general term covering a number of highly specialized fields. Each of those groups has developed its own technical society, membership in which has not been confined to active practitioners but rather to those who have specialized in that particular field.

In recent years there has been felt a need for the presentation of the practitioner's viewpoint as distinguished from the technical viewpoint, hence the organization of the national society.

In January it issued the first number of its official organ, *The American Engineer*. It has opened headquarters in the National Press Building with an acting secretary in charge and has already enrolled nine State Society members. It will hold its first annual convention at Columbus, Ohio in October.

The National Industrial Conference Board recently made a comparison as to the accuracy of the American and British estimates. As reported in *Financial Digest*, their comment was as follows:

Forecasting Government revenue receipts is accomplished with much more accuracy in Great Britain than in the United States, according to an article in the current issue of the monthly Bulletin published by the National Industrial Conference Board.

For the ten-year period ended March 31, 1933, receipts from all British inland revenue duties differed from the combined budget estimates by only 0.4%. The largest excess of receipts over the British budget estimate for any year since 1923 was equivalent to only 2.7%, while the greatest deficit of receipts was 4.2%. Inland revenue duties in Great Britain include all taxes from which revenue is derived by the National Government, except customs duties, motor vehicle duties, and excise taxes.

In the ten year period ended June 30, 1934, the greatest excess of receipts from Federal internal revenue taxes over

original budget estimates was 14.9%; the greatest deficit of receipts, 46.8%. The corresponding percentage in revised budget estimates are 7.1% and 13.6%.

Dun and Bradstreet have recently issued an extremely interesting 160-page monograph entitled "Behind the Scenes of Business," by Roy A. Foulke, the manager of their analysis report department.

The major portion has originally appeared as separate chapter studies in various numbers of the Dun and Bradstreet *Monthly Review*. The chapters covered the following subjects, prosperity of the business enterprise, three important capital ratios, three important inventory ratios, three important sales ratios, three important net profit ratios, followed by a detailed study of the ratios of the wholesale grocery trade.

"Why do you want your letters returned?" asked the girl who had broken the engagement. "Are you afraid I'll take them to court?"

"No," sighed the young man, "but I paid to have those letters written by an expert, and I may use them again some day."

The wife had been put on the budget plan. At the end of each month she and her husband would go over the accounts together. Every once in a while he would find an item, "G.O.K., \$3.00" and a little farther on, "G.O.K., \$6.00."

Finally he said, "My dear, what is this G.O.K.?"

"God Only Knows," she replied.

State Society News

GEORGIA

At a meeting held in Augusta on the evening of September 14, 1935, an Augusta Chapter of the Georgia Society of Certified Public Accountants was formed.

A number of officers of the State society from Atlanta, Savannah, Macon and Columbus attended the meeting and participated in the installation of the newly formed chapter.

Officers elected were: President, Victor

Markwalter; Vice-President, A. T. Murphy; Secretary, W. H. Lynch, Jr.; Treasurer, Lewis Glasser.

Following dinner at the Richmond Hotel there were addresses by W. J. Carter of Atlanta and E. W. Gottenstrater, President of the Georgia Society. Dancing was enjoyed later in the evening.

MASSACHUSETTS

The Massachusetts Society of Certified Public Accountants, Inc., held a meeting on the evening of September 30, 1935.

President Homer N. Sweet gave a report of the Conference of State Society Presidents at Atlantic City, following which there was general discussion. A resolution was unanimously passed approving in general the resolutions adopted at that conference.

A short discussion under the leadership of Edwin E. Wakefield was held relative to the accrual of the Federal Capital Stock Tax on Federal Income Tax Returns for years ending after June 30, 1935.

MINNESOTA

The September *Bulletin* of the Minnesota Society of Certified Public Accountants reprints the fifteen Principles of Business Conduct adopted at the Twelfth Annual Meeting of the Chamber of Commerce of the United States in 1924.

NEW MEXICO

The New Mexico Society of Certified Public Accountants has published a roster of its membership together with the Precepts of Professional Conduct as adopted by the society.

VIRGINIA

The Virginia Society of Public Accountants held its annual meeting at Hot Springs, Virginia, on September 6 and 7, 1935, at which time the following officers and directors were elected: President, Alfred N. Hilton of Norfolk; Vice-President, H. L. Dickerson of Richmond; Secretary-Treasurer, E. P. Dallas of Norfolk; Directors, Wythe D. Anderson and A. W. Burket of Richmond, Harry N. James of Petersburg and R. L. Persinger of Covington.

Announcements

Clarence L. Turner, Richard H. Crook and John H. Zebley, Jr., Certified Public Accountants, announce their association for the practice of accounting under the name and style of Turner, Crook and Zebley, Certified Public Accountants, Perry Building, 1530 Chestnut Street, Philadelphia, Pennsylvania, with branch offices at 758 Penn Street, Reading, Pa., and 47 East Market Street, York, Pa.

Walter A. Coy & Co. announce the removal of their offices to 1252 Leader Building, Cleveland, Ohio.

Herschel Silverstone and Peter Barnett, Certified Public Accountants, announce their association for the practice of accounting under the firm name of Silverstone & Barnett, Certified Public Accountants, 25 Taylor Street, San Francisco, California.

Ed. J. de Verges, C.P.A., announces the removal of his offices to 719-720 Whitney Bank Building, New Orleans, La.

William Margulies, C.P.A., announces his withdrawal from the firm of Bendet & Margulies. He will continue the practice of accountancy at 2201-2210 Raymond-Commerce Building, 11 Commerce Street, Newark, New Jersey.

White, Bower & Prevo, Certified Public Accountants, of Detroit, Michigan, announce the admission of L. B. McLaughlin, C.P.A., as a general partner and the opening of an office at 209 South LaSalle Street, Chicago, Illinois.

Samuel J. Rothman and Adrian Willys, Certified Public Accountants, announce their association as partners under the firm name of Rothman & Willys for the general practice of accounting at 850 South Broadway, Room 800, Los Angeles, California.

Laurence Russell Gardner, C.P.A., announces the opening of his offices for the general practice of accounting at 1528 Walnut Street, Philadelphia, Pa.

Samuel L. Belson, C.P.A., is now located at 11 Beacon Street, Room 505, Boston, Massachusetts.

M. Hoffman, C.P.A., announces the removal of his office to 401 Broadway, New York City.

John F. Forbes & Company, Certified Public Accountants, of San Francisco, California, announce the opening of an office in the Pacific Mutual Building, Los Angeles, and the appointment of Lewis A. Carman, C.P.A., as Resident Partner.

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912 OF THE CERTIFIED PUBLIC ACCOUNTANT, published monthly at Baltimore, Maryland, for October 1, 1935.
City of Washington } ss.
District of Columbia }

Before me, a Notary Public, in and for the City and District aforesaid, personally appeared D. W. Springer, who having been duly sworn according to law, deposes and says that he is the Editor of THE CERTIFIED PUBLIC ACCOUNTANT, and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and if a daily paper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in section 411, Postal Laws and Regulations, printed on the reverse of this form, to-wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, Fleet-McGinley, Inc., Baltimore, Md.; Editor, D. W. Springer, National Press Building, Washington, D. C.; Managing Editor, None; Business Manager, None.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.) The Accountants Publishing Company, The American Society of Certified Public Accountants, National Press Building, Washington, D. C.

3. That the known bondholders, mortgagees, and other security holders owning or holding one per cent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.) None.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

(Signed) D. W. SPRINGER, Editor,
Sworn to and subscribed before me this 24th day of September, 1935.

(Seal) MARY P. STONE.
(My commission expires October 1, 1937.)

State Certificates

Query: "Do you admit all holders of State-granted C.P.A. certificates even though the State granting the certificate may not have a law that should be recognized?"

Answer: "Yes. We believe that the question as to the value of the various State laws is a relative one. We all know that when State laws were first passed many certificates were issued under the waiver clause. We all know that changes have occurred in all states regarding administration. As a rule, the administration of the various laws, although the laws differ, has shown a marked upward trend, and yet it would be practically impossible for anyone to draw a dividing line in any State and say that certificates issued prior to that date should not be recognized while certificates issued after that date might be recognized. There is, therefore, a practical question involved which cannot be escaped. Judgments differ. Nobody claims that at the present time all the State laws are as perfect as they should be or as well administered as they should be, but until human nature is changed, more can be accomplished in working WITH people than in working FOR people. The strength of the American Medical Association, which is the greatest professional organization in the country, has been secured since it adopted the policy of obtaining its members through the State societies and working WITH the State societies and State boards, and we believe that The American Society can render a service to accountancy by associating together the representatives from all the states, even though we recognize that in the first instance they have not all reached the same standard, but we believe that through this organization it will be possible to strengthen the weaker ones and in no instance will the stronger be weakened."

Burroughs

CAN HELP YOU CARRY OUT YOUR IDEAS

When accountants are planning an improved operation in any line of business, they will find the local Burroughs office ready and willing to assist in familiarizing them with the complete line of Burroughs Machines.

Clients and employers will appreciate information as to what these machines can do, and what economies they represent.

For Burroughs offers such a comprehensive line of Adding, Billing, Calculating and Accounting Machines—in so many styles and sizes—that the accountant can select exactly the right machines to meet any accounting or figuring requirement. Burroughs machines also provide the latest developments in speed, simplicity and ease of operation.

Telephone the local Burroughs office. They will gladly arrange to show you the line of Burroughs machines.

BURROUGHS ADDING MACHINE COMPANY

Detroit, Michigan

**Adding, Accounting, Billing and Calculating Machines
Cash Registers • Typewriters • Posture Chairs • Supplies**

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

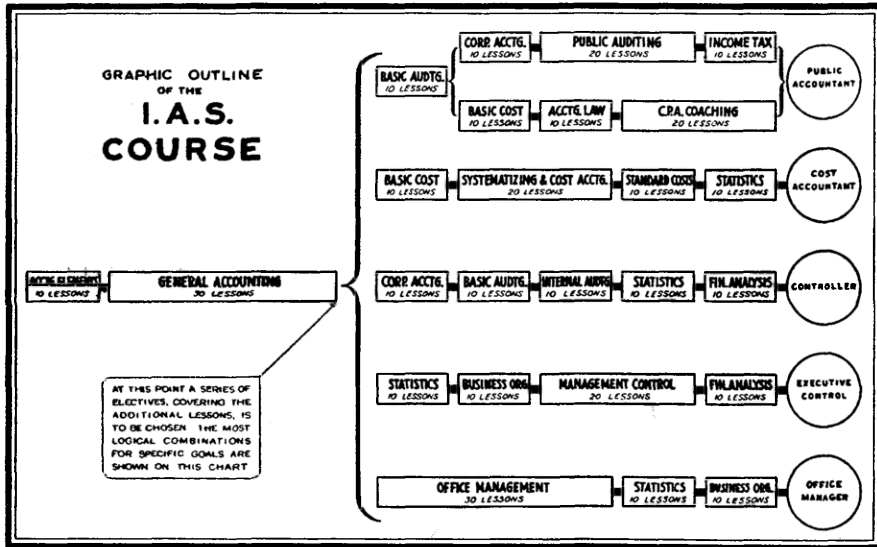
CERTIFIED PUBLIC ACCOUNTANT

Official Organ of The American Society of Certified Public Accountants

The Accountants Publishing Co.

In This Issue

	PAGE
<i>New Occasions Teach New Duties</i> —WM. D. MORRISON	643
<i>A Look at the Future</i> —WILLIAM C. HEATON	644
<i>Auditing and Accounting for the AAA</i> —JOHN B. PAYNE	649
<i>General Audit Program and Procedure</i> HERMAN M. KNOELLER	666
<i>Talking Shop</i> —LEWIS GLUICK	673
<i>The C.P.A.</i> —JANE ALLEN SEARSON	675
<i>Service Charges Sugar-Coated</i>	676
<i>Raising C.P.A. Standards</i> —BORIS BAIEVSKY	676
<i>C.P.A. Examination Questions, Economics and Public Finance,</i> <i>May, 1935</i>	677
<i>Questions and Answers Department</i> —STEPHEN GILMAN	679
<i>Seen in Published Financial Statements</i> —W. T. SUNLEY	682
<i>Announcements</i>	691
<i>John Brighton Tanner</i>	692
<i>State Board News</i>	693
<i>The Social Security Act</i> —GEORGE P. ELLIS	694
<i>Wee Bits on Accountancy</i> —LOUIS S. GOLDBERG	696
<i>Conference of State Board Members</i>	697
<i>Report of Committee Cooperating with Credit Groups</i>	698
<i>Report of Committee on Complaints</i>	700
<i>Report of Committee on Federal Legislation</i>	701
<i>State Society News</i>	702



How this training meets the needs of the individual

ONE of the interesting features of the course in Accounting offered by the International Accountants Society, Inc., is its wide range of selectivity, which affords the student specialized instruction.

The chart shows how the student can select more than one-half his lessons to cover subjects pertaining to work in which he is most interested.

This elective feature enables the student to progress directly to a specific goal. After attaining his goal, he can broaden his knowledge by proceeding with the study of the remaining subjects.

Upon request, we will gladly mail our booklet, "How to Learn Accounting," to anyone who is interested in obtaining full information regarding I.A.S. training. Address the International Accountants Society, Inc., 3411 South Michigan Avenue, Chicago, Illinois.

INTERNATIONAL ACCOUNTANTS SOCIETY, INC.

a Division of the

ALEXANDER HAMILTON INSTITUTE

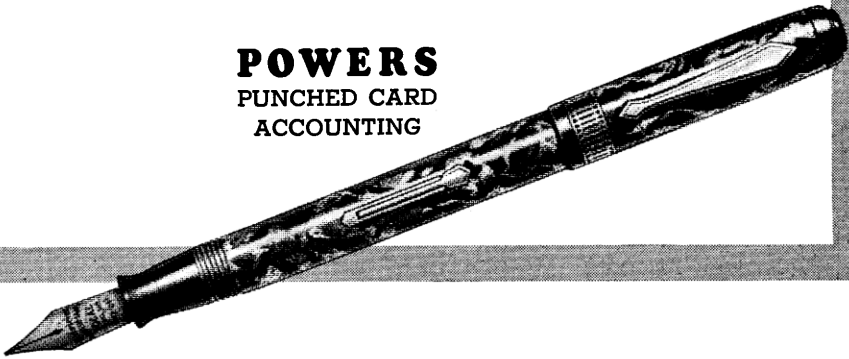
For 16 years

Waterman's Fountain Pen

has used the

ideal tabulating system

POWERS
PUNCHED CARD
ACCOUNTING



Mr. F. D. Waterman, President
L. E. Waterman Company
New York

"SINCE 1919 Powers has produced for us the vital statistics of our world-wide activities. The close and accurate control that we must constantly maintain over sales, style trends, factory costs, inventories and payroll is made easily possible with Powers machines. This automatic equipment which gives us such an extensive spread of necessary information is an integral working part

of the Waterman business," says Frank D. Waterman, President of the L. E. Waterman Co., New York.

This is only one of the hundreds of businesses where Powers machines and punched card accounting bring definite savings.

Powers machines help control selling costs. They improve accuracy of material records and payrolls.

Powers control improves collections, often getting statements into the mails ten to twelve days earlier each month.

Ask our representative to show you Powers machines in operation in your city and to make an analysis

showing what they could do for you.

Powers machines are made by Remington Rand, which produces all types and kinds of office equipment and systems — is in a position to advise you impartially and without bias. Because Powers equipment is leased, it requires no capital investment of any kind. Telephone our local office or write Remington Rand Inc., Buffalo, New York.

Remington Rand
POWERS
Accounting Machines

Ok..it's from Remington Rand

*Listen to the "March of Time" every night except
Saturday and Sunday at 10:30 E.S.T. Columbia Network.*

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

A LIBRARY OF *Machine* *Accounting Applications*

AVAILABLE FOR YOUR USE!

● Is there some particularly trying accounting problem that besets you at the moment? Then avail yourself of the privilege that is yours as an accountant of seeking its counterpart in the Library of Machine Accounting Applications maintained by Underwood Elliott Fisher.

The Underwood Elliott Fisher Library covers practically every conceivable problem that ever has been

solved by machine accounting. Please feel free to call or write without obligation of any kind.

. . .

Underwood Elliott Fisher makes three types of accounting machines with a wide variety of models in each. There is an Underwood Elliott Fisher Accounting Machine for every accounting purpose . . . backed by a nation-wide, company-owned service organization.

UNDERWOOD ELLIOTT FISHER ACCOUNTING MACHINES

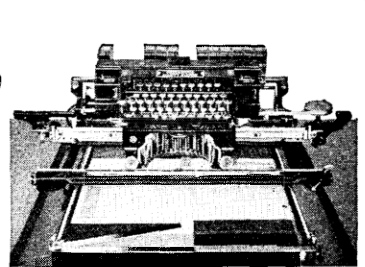
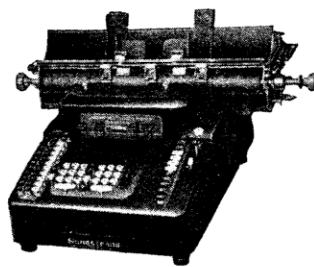
Accounting Machine Division

UNDERWOOD ELLIOTT FISHER COMPANY

Accounting Machines, Typewriters, Adding Machines, Carbon Paper, Ribbons and other Supplies

342 Madison Avenue, New York, N. Y.

Sales and Service Everywhere



Underwood Model
Underwood Elliott Fisher
Accounting Machine

Sundstrand Model
Underwood Elliott Fisher
Accounting Machine

Elliott Fisher Model
Underwood Elliott Fisher
Accounting Machine

Underwood Elliott Fisher Speeds the World's Business

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

The Certified Public Accountant

DEVOTED TO THE INTERESTS OF THE C.P.A., HIS CLIENT, AND THE PUBLIC WELFARE

VOL. XV

November, 1935

No. 11

Editor: DURAND W. SPRINGER. Published monthly by The Accountants Publishing Company. *Publication office:* Candler Building, Baltimore, Maryland. *Editorial office:* National Press Building, Washington, D. C. All communications for publication should be addressed to the Editorial office, National Press Building, Washington, D. C. *Subscription price:* A year of 12 issues, \$2.00; twenty cents a copy. Entered as second-class matter, January, 1934, at the post office at Baltimore, Md., under act of March, 1879.

"Nothing endures but character expressed in service."—HORACE GREELEY.

The President's Page

New Occasions Teach New Duties

BY WM. D. MORRISON, C.P.A.

NOT so many years ago, when a certified public accountant was engaged in an audit of the books of an organization, it was at once considered by a vast majority of persons, who knew that an audit was in progress, that there must be a defalcation in the accounts of the officer responsible for the funds of the organization. This theory has almost been eliminated by occasions that have enlightened the public to the fact that the education and experience of the members of our profession have qualified them to satisfactorily work out the current business problems.

The necessity for adequate records to guide executives in the administration of their affairs came as a duty to our profession. After that came the complicated income tax law that had to do with invested capital, excess-profits tax, and normal tax. This occasioned, and in many instances made necessary, the installation of adequate accounting systems so as to obtain the information for the compilation of income tax returns. Since that time many new occasions have arisen that required the services of the certified public accountant. As our training was in the field of economics, business administration, and accounting, it fell to us to enter into the many new fields in connection with the general practice of accountancy.

More recently new duties have been created through the occasion of Federal and State Laws, such as the National Industrial Recovery Act, Social Security Act commencing January 1, 1936, and numerous other acts; also a few states have enacted State Sales Tax, State Income Tax Laws, etc., all of which gives rise to new duties in connection with the accounting and business procedure. The fact that any of these laws may be considered unconstitutional does not lessen the necessity for making provisions in the accounting systems to take care of the requirements as specified therein, and the accounting must continue until the law is held

to be unconstitutional by the proper court.

Often the certified public accountant is closer, because of his strategic position, to the actual operations and financial conditions of a business than are the officers of the company. For this reason the business executives of the country have reached the well-founded conclusion that, as a profession, we are better qualified, through our training and experience, to advise them in their business problems, than are the members of any other profession.

The maze of recent State and Federal legislation passed for the purpose of regulating business, has created the occasions which have taught new duties to our profession. Our profession has met these duties and responsibilities squarely. They well-realize that the advancement of the profession from merely the detector of defalcations to that of business consultants is the result of untiring efforts and almost endless research, which is necessary to keep abreast with the rapidly changing conditions.

A Look at the Future *

by WILLIAM C. HEATON, C.P.A.

SOMETIME during the next two or three months, a book will be published entitled "The Unfinished Business of Science." C. C. Furnas, professor of Chemical Engineering at Yale University, the author, has divided his discussion into five parts:

Biology
Chemistry
Physics
Engineering
Social Consequences

Under thirty-one (31) chapter subheads, he discusses what has been accomplished, the difficulties encountered and the vexing problems of organic and social life that are demanding solution. Let me list a few:

Under Biology

1. The battle of eugenics
 2. What is life?
 3. Our chemical masters
 4. Food
- and six others

Under Chemistry

1. Solvents
- and two others

Under Physics

1. Energy for the making and two others

Under Engineering

1. Labor saving
 2. Power
- and two others

Under Social Consequences

1. The risen tide of invention
2. Leisure without lethargy
3. The life of assurance

In his preface, Professor Furnas speaks of the "Century of Progress" Exposition. I quote briefly:

The visitors "saw the latest, swiftest and safest airplanes on display, but during the Fair one sightseeing and one regular passenger plane fell in the vicinity of Chicago, killing an even score of men and women. . . . They saw a motor car assembly line in operation but, if they investigated carefully, they found that as a mechanism for converting the potential energy of fuel into mechanical work the average motor car is only about eight (8) per cent efficient. They marveled at the lighting effects at night but, in talking the matter over with experts, they found that most of the lights were operating with an efficiency of less than two (2) per cent."

*President's Address, Kansas City Annual Meeting of The American Society.

I have spoken of this book because it seemed to me that I could thus express a point of view more clearly and effectively than in any other way. In our field of accountancy, particularly in the broadening field of work in which the certified public accountant renders his service, we may profitably look back upon a "century of progress." But if we are realists, we must understand that we are operating at an efficiency of a small per cent and we must look forward to the solution, or at least the partial solution, of many problems. Some we see immediately before us, others vaguely arising. We know, too, that there are still others of which we are now unaware.

In this paper, I propose to raise and discuss in a few short paragraphs, four questions. The four are chosen from many that need discussion:

1. Are we engaged in a business or a profession?
2. How can we render more and better service?
3. Should we oppose regulation or adjust ourselves to it?
4. Is accountancy in need of research work. If so, what practical suggestion can be made?

The first question, "Are we engaged in a business or a profession?" has left the field of interesting but academic discussion and we are facing the necessity of asserting one or the other. Your attention is directed to the August, 1935, issue of our magazine, *THE CERTIFIED PUBLIC ACCOUNTANT*, pages 474 to 481 inclusive, where are printed the representations of the American Bar Association and those of The American Society of Certified Public Accountants at a hearing of the House Judiciary Committee on Senate Bill 2512, commonly known as the Lobbyist Bill.

The bill, introduced in the Senate by Senator Black of Alabama, has been summarized as follows:

"All persons engaged in the business of attempting for pay or any other consideration to influence Federal legislation would be required to register with the Clerk of the House and the Secretary of the Senate. Persons engaging in similar activities in connection with Government officials, bureaus and agencies

and with reference to Government contracts for the purpose of securing advantages or benefits to private corporations or individuals would be required to register with the Federal Trade Commission.

"Persons registering would be required to furnish under oath at time of registration information concerning their compensation, expenses, their contract of employment, duties in connection with such employment, and to supplement this information by reports every three months concerning their activities under penalty of fine not to exceed \$5,000 or imprisonment not to exceed one year, or both. (S. Rept. No. 602.)"

Those of you who have read the pages referred to and the information sent out through the *C. P. A. NEWS*, know that the bill as it passed the United States Senate if unamended, would make extremely difficult and in many cases actually prevent the practice of accountants or attorneys in representing clients before the Treasury Department in tax cases and that would include the presentation of facts and arguments to revenue agents in their examination of tax returns and on appeals from agents' recommendations at hearings before local committees, treasury officials at Washington and the Board of Tax Appeals.

Now, it will be noted that the representative of the American Bar Association proposed two amendments to S. 2512, the Lobbyist Bill, and after careful though rapid consideration, The American Society of Certified Public Accountants expressed approval in writing. We are concerned here with the first of the proposed amendments designated as Section 8, and principally with paragraph (c). I read a part of the proposed amendment:

Sec. 8. The provisions of this act shall not apply to, or be construed as affecting,

- (a) Professional services in drafting, etc.
- (b) Professional services in appearing and presenting evidence, etc.
- (c) Professional services rendered in practicing before any United

States bureau, agency or official which exercises, or by law is authorized to exercise, control over the admission and disbarment of persons practicing before it or him, or which has, or by law is authorized to have, rules and regulations covering such practice with respect to any matter subject to such control or such rules and regulations.

- (d) Bona fide requests for, and endeavors to secure, information, etc.

Under paragraphs (a), (b) and (c) of this proposed amendment the exemptions are specified as "professional services." If our work is not professional, if we are not engaged in a profession, we cannot claim exemption from the general provisions of the proposed act which it is generally believed would make extremely difficult and in many cases actually prevent the practice of accountants or attorneys in representing clients before the Treasury Department in tax, reorganization and other matters.

But, it may be said, the Lobbyist Bill was not enacted into law. Can we assume the proposed amendments will be a part of it, if it ultimately becomes a law. As I understand it, when Congress convenes in January next, S. 2512 will be unfinished business and it is believed the demand for legislation of the sort will be sufficient to cause its enactment. It will be unfortunate for certified public accountants if it is passed without amendment and it will be equally unfortunate if passed with the proposed amendment, provided they cannot qualify as rendering "professional services."

Now for the other side of the picture. In Pennsylvania a bill was introduced in the lower house of the legislature and passed without a dissenting vote, which provided that firms rendering professional services may not practice under the name or names of deceased persons. In the upper house it died in committee because after hearings it could not be determined from the testimony whether public accounting services were business or professional. Arguments and statements were

heard that the services were essentially business. Business can be carried on under any appropriate or assumed name.

We cannot argue in connection with the Federal legislation that we are engaged in rendering professional services and in connection with State legislation a business service. The discussion has left the academic field and entered the practical.

The second question is a very practical one, "How can we render more and better service?" That we desire to render more and better service, may be taken for granted because thereby we can acquire those things for which we properly strive, namely, larger incomes and the satisfactions which form so great a part of our compensation. Indeed, our income and our satisfactions are in large degree, measures of the quality of the services rendered. It has been said that a generation ago we were wondering how we could let the public know how valuable our services were and how much we could do if we were but afforded the opportunity, but that in recent years we are equally concerned that the public should understand that there are definite limits to the responsibilities which we can and do assume. That concern became acute when we read Cardozo's opinion in the *Ultra-mares* case and understood to what extent we are held responsible under the common and statute law. Our concern became more acute when we read the Securities Act of 1933 and the regulations promulgated under it and realized the exactions imposed upon us. There followed a period of intense study and many discussions. These resulted in more careful procedure in our work, more cautious statements in our reports and our certificates. On the whole, it is believed that better service and a better understanding between accountants, on the one hand and clients and the public on the other hand, have followed.

During the past year I have talked with many certified public accountants in many parts of the country. Everywhere it was found that the adjustment had been made and practitioners were facing their better-known and increased responsibilities calmly, courageously and intelligently. Therein lies the answer to the

question, "How can we render more and better service" — by facing our better-known and increased responsibilities calmly, courageously and intelligently.

But the discussion of the question should not end there. During recent years there has been a marked tendency among business men to consult with their accountants on matters not directly connected with their accounting work. I have seen a report rendered by a firm of certified public accountants to the directors of a corporation in which the advice was given to get a new president, primarily on the ground that that officer had been unable to obtain effective cooperation from the key men in the organization. Although an engagement resulting in such a recommendation is quite unusual, I believe a questionnaire sent to experienced certified public accountants would bring answers varying all the way from that extreme to our usual work of auditing, etc.

Ten years ago, writing on this same subject, I said what is as true today as it was then:

"The fact is that the accountant cannot always limit completely the character of work he does. The circumstances lead naturally toward and sometimes into the fields of administration, engineering and law. He is the first to gather and review the facts and, since he, himself, must interpret them before he can present them in an illuminating way, he inevitably must understand and often present the administrative, engineering and legal implications and assume some degree of responsibility for the practical working of his suggestions.

"It is common for accountants, particularly those who enjoy a substantial and established practice, when arranging for the installation of financial or cost systems, to require for a time a certain supervisory authority over the persons in the accounting department. That authority is often continued for years and constitutes a quasi-administrative relation from which executives are reluctant to relieve the accountant, because the more intimate knowledge it gives increases the value of his services."

"We are all aware that the substitu-

tion of incomplete engineering knowledge for the full understanding of the professional engineer has brought the term 'efficiency man' into some degree of disrepute. Yet, what accountant of extended practice among industrial enterprises has not rendered service by correcting glaringly poor factory layouts?

"Let us assume a prosperous business enterprise, worth, say, from a half-million to a million dollars, owned by an individual, having a small stated capital and a large surplus, the owner approaching the age of retirement and the business managed more and more completely by able lieutenants. The accountant reviewing the facts with the perspective of an observer sees that the situation is crying for readjustment and suggests a reorganization. He is unfortunate if he suggests it without being fortified with much legal information and with a definite plan as a basis for consideration. He finds it necessary to explain that it is quite in accord with modern thought on property rights to believe that legal ownership is not the sole test of rightful ownership and that a wise as well as a just exercise of legal power must not fail to consider the contribution of others to the creation of a valuable property; that this point of view is held not alone by the radicals who lay emphasis upon its justness, but also by many otherwise conservative men of affairs who lay emphasis upon its wisdom; that particularly do men who have built up prosperous business enterprises recognize that continued prosperity, possibly continued existence of these enterprises, is vitally related to the wisdom with which they reorganize their property rights and recognize the contributions made by their principal assistants who have loyally and capably contributed to creation and growth. Such suggestions and statements serve no useful purpose if they are not accompanied by a discussion of the kinds of reorganization that are available, and naturally the accountant at some point finds he has entered the field usually cultivated by the attorney.

"Without further discussion or illus-

tration, let me restate the point that since he is the first to gather and review the facts and since he, himself, must interpret them before he can present them in an illuminating way, the accountant inevitably must understand and often present the administrative, engineering and legal implications and assume some degree of responsibility for the practical working of his suggestions. Whether he will or not, he finds he must increasingly broaden the field of his work.

"Perhaps the most important phase of this whole question is the attitude of the accountant. If he resists the tendency to go outside his usual field and works with (rather than in place of) the executive, the engineer or the attorney, he is not likely to do a poor job on extraneous work or disqualify himself for the pursuit of his accepted professional activities."

The third question "Should we oppose regulation or adjust ourselves to it?" is closely related to the one just discussed. It is probably the most controversial of the problems generally before professional accountants at this time. It will be many years before divergent opinion are reconciled. I do not intend to argue the matter but instead will confine myself to one or two comments.

The trend of the times is toward more regulation. The density of population and the complexity of our political, social and economic life require that professions be subjected to regulation. If our work is professional (and I believe it is) we may well expect that our work and our conduct shall be subjected to increasing regulation which is a concomitant of professional activity. I believe we may expect a growing demand for the protection of the public through State regulatory laws. It is true, however, that accountancy practice requires that State boundaries be not permitted to interfere with adequate service. Is it not wise to recognize that the way it is done in America is to regulate by State law and attempt to obtain sensible and liberal laws rather than oppose them and ultimately get more unsatisfactory ones?

The fourth and last question reads, "Is

accountancy in need of research work?" If so, what practical suggestion can be made?

I have recently made some brief comments on this subject. I shall be equally brief here. During the last two decades especially, accountancy literature has increased greatly in volume. Indeed, it has become difficult or impossible to read enough of the valuable papers and books that are available to keep abreast of the best thought concerning theory and practice. In most cases, the papers and books represent the work of individuals with such assistance and collaboration as they may have obtained. Often the standing and scholarship of the authors lend great weight to their statements. In fewer cases the papers and books represent more definitely the expression of thought and opinion of a number of persons. The fact that these men of standing and accomplishment have agreed upon what is said, lends greater weight to their statements. Among such documents let me cite but one:

A pamphlet issued by the American Institute of Accountants entitled:

Corporate Accounts and Reports. It is the report of a special committee, the members of which were Archibald Bowman, Arthur H. Carter, Charles B. Couchman, Samuel D. Leidesdorf, William M. Lybrand and George O. May, Chairman. Such a document representing the common thought of such eminent men carries more weight than would the identical document subscribed to by but one of them alone.

With all the wealth of literature available what more is needed? I venture one suggestion. Perhaps we could have a commission made up of certified public accountants, professors from the universities and attorneys—men whose erudition, wide experience and character command confidence—to study for an extended period and from time to time publish such conclusions concerning fundamentals as they may have reached. Possibly one of the great foundations might be persuaded to finance the project for it is vested with a wide public interest. The publications of such a commission could be said to be authoritative.

This short discussion of a few of the
(Continued on page 672)

Auditing and Accounting for the Agricultural Adjustment Administration*

by JOHN B. PAYNE, C.P.A., Comptroller, Agricultural Adjustment Administration

MY good friend, Mr. Springer, has requested me to describe briefly some of the accounting features of the Agricultural Adjustment Administration which might be of interest to the independent accounting practitioners, and possibly be of some help to them on assignments where the clients are affected in some degree by the administration of the Agricultural Adjustment Act.

As you know, this Act, which was approved May 12, 1933, was intended to serve as an instrumentality to help bridge the gap between what the farmer paid for goods consumed by him and the prices he received for the product of his labor. Specifically, this legislation had for its fundamental purpose the restoration of farm prices to pre-war parity, that is to say, to restore to the farmers the purchasing power which would be on a par with that which they enjoyed during the five-year period (1909-1914) immediately before the World War. This period was selected as the base period because it is generally recognized that during that time farmers received a reasonable share of manufactured products in exchange for the commodities they had to sell.

Before I discuss the accounting features of the Agricultural Adjustment Administration, I think you would be interested in knowing something of the background of the circumstances which brought the Agricultural Adjustment Act into existence.

The World War, you know, climaxed the period of agricultural expansion in the United States. The war increased European demand for wheat, cotton, beef, and pork. Prices of these commodities skyrocketed and the farmers of this country increased their planting. They plowed up some 40 to 50 million acres of grass

and pasture land which had never before been in crop production, and turned it into the production of those agricultural products demanded by European countries. At about the same time the gasoline engine, the truck, the tractor, and the automobile developed, and soon these became standard farm equipment. These new farm production aids displaced horses and mules. With the displacement of these horses and mules went the need of the products from about 35 million acres of land.

Europe's increased buying of our agricultural products placed the United States in a creditor position. Billions of dollars were loaned abroad, with which agricultural exports from this country could be paid for by European nations.

Then came the end of the war. With the thunder of cannons still in their ears, European nations frantically started a drive for self-sufficiency. They subsidized their own farmers, and shut out foreign competition through establishment of high tariff walls and quota barriers. At the same time, farmers of newer countries had increased their production. Fertile lands in Argentina, Australia and Canada were opened up and the products from these lands entered the world market to compete with the products of this country. With the ending of the war, farmers of the United States began to find that the world markets no longer would take unlimited amounts of their products. In spite of this discovery, the extra acres brought into cultivation to meet the war-time demand, and the acres kept in production in spite of the lost uses for horses and mules, continued to be farmed. Our country's agricultural plant was kept in production at peak load. The creation of over-supply was inevitable. Soon depression engulfed farmers of the nation. By March, 1933, in spite of previous attempts to assist farmers through the Federal Farm Board

*Address at annual meeting of The American Society of Certified Public Accountants, Kansas City, Mo., October 3, 1935.

and other efforts, surpluses of cotton, wheat, corn, pork, and other farm products had piled up in unprecedented volume, and could not be marketed at prices that enabled farmers to stay in business. Prices for farm products went to the lowest levels within the memory of farm operators.

The Agricultural Adjustment Act has been in operation for less than two and a half years. During this period, partly as a result of the programs inaugurated under this Act, and partly through the aid of other recovery measures, American agriculture has been climbing out of one of the severest depressions in the history of the country.

The gains that farmers have made since the spring of 1933 have been realized largely through the participation of more than three million of them in one of the most far-reaching cooperative efforts the world has ever known.

Under the Agricultural Adjustment Act, crop-adjustment programs, designed to bring production more in line with effective domestic and export requirements, have been put into operation for cotton, wheat, tobacco, corn and hogs, peanuts, rice and sugar. The Act provides for voluntary participation by farmers. To take part in a crop-adjustment program, farmers enter into voluntary agreements with their Government.

Cooperation in adjusting the production of basic agricultural commodities is made possible through the medium of the processing tax which is used to provide funds for financing the commodity programs. Money collected through processing taxes is paid out in rental or benefit payments to producers of these products who sign production adjustment contracts. These payments are designed to compensate farmers for the sacrifices they make in adjusting production, and the processing-tax, benefit-payment program constitutes a device for attaining for the farmer the most equitable return possible for his product.

The processing taxes, in financing the rental and benefit payments to cooperating producers, provide the Government with the means to associate the interests of the individual with the interest of the whole group of producers of a basic commodity.

Before the Agricultural Adjustment Act came into existence, no individual could be sure that, no matter how great the surpluses might become or how low prices might fall, other producers would join with him in any voluntary program of production adjustment.

By confining rental or benefit payments to farmers who cooperate to adjust production, those producers who cooperate know they will receive more per unit than those who do not, and therefore the processing taxes and benefit payments provide a means of uniting farmers in a general movement to accomplish the objective.

They are fundamental to the machinery by which farmers control their production and increase their income by encouraging adjustments that raise farm purchasing power. Processing taxes promote the general welfare.

Looking over the record of the last two and a half years under the Agricultural Adjustment Act and other recovery measures, we find these significant facts:

1. Cash farm income of farmers in this country has increased by more than 40 per cent from the 1932 level.
2. The available purchasing power of farmers has more than doubled.
3. The value of farm property, which struck a new low during 1933, has been showing a definite upward trend.

All of these improvements have contributed to restoration of confidence in agriculture and business as well.

You will recall that the Agricultural Adjustment Act came into existence after a period when cotton was selling for around 6 cents a pound, hogs for \$3.36 per hundredweight, corn for 32 cents a bushel, and wheat for 38 cents a bushel. The income of the nation's farmers had reached a dangerously low level. Cash farm income for 1932 was \$4,328,000,000. From 1929 to 1932, farm income had dropped over 50 per cent.

The American farmer was impoverished. His condition was reflected in every village and every city. Industrial areas which depended upon agricultural regions for outlets for their goods were among the hardest hit. They had lost their farm markets. Farm income had to be increased if agriculture's purchasing power was to

be restored. This meant higher prices for products sold by farmers.

The first programs put into operation by the Agricultural Adjustment Administration in 1933 were those for cotton, wheat and tobacco. The first year of the operation of the recovery program saw cash farm income of farmers climb to \$5,117,000,000. In 1934, corn and hogs, peanuts, and sugar were added to the list of adjustment programs. In addition, an emergency program to meet the worst drought this country has known in years was put into effect to conserve the nation's meat supply and to stimulate the production of food and livestock feed crops seriously damaged or threatened by the drought. In spite of that devastating drought, 1934 cash farm income for the nation was \$6,387,000,000, an increase of more than 40 per cent from the low level of 1932. I believe it is quite significant to point out that rental and benefit payments made to farmers cooperating in adjustment programs totaled less than 10 per cent of the 1934 cash farm income.

That farm income for 1935 will exceed last year's level is indicated by a recent estimate by the Bureau of Agricultural Economics. This estimate places 1935 cash farm income at \$6,700,000,000. As a result of higher incomes, farmers now have more money to spend for living expenses and luxuries. The cash available to farmers for living expenses, from the 1934 cash income, after deducting wages, operating expenses, taxes and insurance, is estimated at \$3,260,000,000. This compares with \$2,627,000,000 in 1933, and is more than double the total of \$1,463,000,000 available for the living of farmers in 1932.

Industries and business once more are finding the farm market a fertile field. Farmers have become better customers for the goods produced by industry. This is indicated by increased sales in rural areas, of automobiles, household goods, farm equipment, and other industrial commodities. The Automobile Manufacturers' Association reports that in 1934 retail sales of automobiles made their greatest gains in small towns and on farms. New passenger car registrations in towns under 10,000 population showed an increase of

38 per cent over 1933 figures, while registrations in cities over 10,000 increased only 18 per cent. This is only one indicator of how increased dollars in the hands of farmers are finding their way back to the industrial cities.

During the last year, the Agricultural Adjustment Administration has been conducting studies on shipments of industrial and manufactured goods from industrial states to agricultural states. One such study has been completed. It shows that from the year ending June 30, 1933, before the actual launching of the recovery program, to the year ending June 30, 1934, when the results of the program had begun to be felt, shipments of manufactured goods from 16 northeastern industrial states to 10 states of the agricultural southeast increased 38.8 per cent. During the same period covered by this study, farm income in the 10 southeastern agricultural states had increased 59.9 per cent. In these states tobacco and cotton production adjustment programs were of major importance.

The agricultural adjustment program is the farmers' own program. Policies of the Agricultural Adjustment Administration have developed from the grass roots. The program itself represents a cooperative effort between Government and agriculture, and places a serious responsibility where it belongs—in the hands of farmers themselves. When an adjustment program for a particular commodity is inaugurated, it is backed by the best consensus of farm opinion obtainable. The farmers themselves provide the machinery for the administration of adjustment programs in their own counties. They have organized over 4,000 production control associations to carry out the adjustment programs in which over three million farmers are participating.

Our experience has been that when a farmer signs a contract to make adjustments in his production, he intends to fulfill his obligation. I think you will be interested to know that of all the contracts in effect, violations amounted to not more than 5/100 of one per cent. This certainly speaks well for the integrity of the American farmer.

ACCOUNTING SYSTEM

With that presentation of the purpose of the Agricultural Adjustment Act and the methods followed to bring about an improvement in the farmers' purchasing power, I believe we are ready to enter into a discussion of the General Governmental accounting features to which the accounting system of the Agricultural Adjustment Administration must conform, and the description of some of the accounting and auditing features characteristic of this agency.

Budgeting and accounting in the Federal Government have undergone a marked development since 1921 when the Budget and Accounting Act was passed. As a result of the provisions of that Act, the preparation of the budget has been systematized, and a uniform system of accounting prescribed for Government bureaus.

You may be interested in an enumeration of the General Ledger Accounts carried on our records. These are substantially as follows:

DEBIT BALANCE ACCOUNTS

Available Cash (by appropriation symbols and titles)

These are debit balance accounts and show the amounts under the appropriations and funds available on the books of the General Accounting Office and the Treasury and in the hands of disbursing officers. A separate account is maintained for each appropriation and fund available.

Disbursing Officer's Cash—Special Deposits

This is a debit balance account and shows the amount of special deposit collections with the Disbursing Officer.

General Fund Revenues Deposited (by symbols and titles)

These are debit balance accounts and show the amount of general fund revenues (including miscellaneous receipts) deposited into the Treasury of the United States. A separate account is maintained for each receipt symbol and title for which deposits have been made.

Special Fund Receipts Deposited (by symbols and titles)

These are debit balance accounts in which are temporarily accumulated special

fund collections which are to be made available for expenditure upon issuance of appropriation warrants.

Taxes Appropriated to Repay Treasury Advances

This is a debit balance account and shows the amount of tax collections appropriated. This fund is available only for payment to United States possessions of amounts of compensating taxes collected on imports from said possessions, and to reimburse the General Fund of the United States Treasury for amounts advanced in anticipation of tax collections.

Tax Collections (by commodities)

These are debit balance accounts and show the amount of taxes collected and deposited by Collectors of Internal Revenue, as reported by the Bureau of Internal Revenue, Treasury Department. Subsidiary records showing the nature of the taxes collected under each commodity are maintained by collection districts.

Tax Collections Applied (by commodities)

These are credit balance accounts and are used as offsets to the "Tax Collections" accounts. By posting to these accounts the amounts of tax collections appropriated, the "Tax Collections" accounts will at all times show the total taxes collected.

Estimated Receipts (by commodities)

These are debit balance accounts and show the amounts which it is estimated will be realized from processing and other taxes. Through the use of these accounts it is possible to make allotments and incur obligations prior to the actual collection of the taxes.

Commodities (by commodities)

These are debit balance accounts and are maintained without reference to appropriations. They are intended to show the value of commodities purchased by the Administration under programs involving removal of surplus agricultural products.

Equipment

This is a debit balance account and is maintained without reference to appropriations or funds, and shows the value of furniture, equipment, and other non-expendable and accountable property acquired by purchase or donation. Property card records are provided to show the details of property owned with a description

of cost (or value) and location.

Undistributed Expenditures (clearing account)

This account is maintained for convenience in distributing expenditures to equipment and expense accounts, and should normally show no balance at the end of the month. A debit balance would indicate that the charges had not been completely distributed and a credit balance would indicate that an over-distribution had been made.

Current Costs (by account classification)

These are debit balance accounts and show the amount of expenditures made during the fiscal year in payment of rental and benefit payments, salaries, and expenses, and for expendable property and supplies purchased and consumed.

Current Costs—Commodities Donated (by commodities)

These are debit balance accounts and show the value of commodities, purchased in programs involving the removal of surplus agricultural products, which are donated for relief purposes.

CREDIT BALANCE ACCOUNTS

Advances by U. S. Treasury (by commodities)

These are credit balance accounts and show the amounts advanced by the United States Treasury in anticipation of processing and other taxes levied under the terms of the Agricultural Adjustment Act.

Special Deposit Obligations (by class)

This is a credit balance account in which is recorded (a) collections which at the time received cannot be properly allocated as to the proper appropriation or general fund revenue symbol and title, and (b) special deposits received from individuals —(1) to guarantee reimbursement to the United States for purchases made or services rendered, (2) to guarantee performance under contracts and agreements entered into, and (3) to provide funds for authorized activities and purposes.

Tax Collections Due U. S. Possessions (by commodities)

These are credit balance accounts and show the amounts of compensating taxes collected on imports from United States possessions and which, under the terms of

the Agricultural Adjustment Act, are to be paid into the treasuries of said possessions.

General Fund Revenues (symbols and titles)

These are credit balance accounts and are maintained for the purpose of showing statistical information as to the amount of General Fund Revenues (miscellaneous receipts) collected. A separate account is maintained for each receipt symbol and title for which General Fund Revenues (miscellaneous receipts) have been collected. Miscellaneous receipts from the sale of Government property are ultimately covered into the Treasury.

Capital Surplus

This is a credit balance account and is maintained without reference to appropriations, funds, etc., and is intended to show the value of equipment, etc., in use at the beginning of the fiscal year, the cost of which has been defrayed out of prior years' appropriations, plus the value of equipment donated.

Unallotted Appropriations (by symbols and titles)

These are credit balance accounts and show the amounts under each appropriation available for allotment. A separate account is maintained for each appropriation so available.

Unencumbered Allotments (by symbols and titles)

These are credit balance accounts and show the total unencumbered balances of allotments. At the time the amounts allotted are credited to this account the amount of each allotment is also entered on allotment ledger sheets, to which encumbrances, liquidations and payments of vouchers are subsequently entered in detail.

Unliquidated Encumbrances (by symbols and titles)

These are credit balance accounts and show the total unliquidated encumbrances.

Expended Appropriations (by symbols and titles)

These are credit balance accounts and show the total accumulated expenditures.

ALLOTMENT LEDGER TRANSACTIONS

Allotments

When funds are appropriated by Congress the amount of the appropriation is

not set up on the books of the Treasury Department by means of an appropriation warrant. Upon receipt of advice of the appropriation warrant the amount is also set up on the books of the Agricultural Adjustment Administration under the account "Unallotted Appropriations." From time to time, allotments are approved for specific projects, and such allotments are entered to the account "Unencumbered Allotments."

Allotment accounts are set up on standard forms, and all entries to these accounts are made over a "Register of Allotment Ledger Transactions" for the appropriation to which the items are to be charged, separate registers being maintained where necessary for posting purposes.

The amounts allotted are entered in the "Allotments" column from the approved advices of allotments. The entries in this column have the effect of establishing the "Unencumbered Balance of Allotment" or in cases of additional allotments, of increasing the balance. Withdrawals of allotments are entered in reverse (red) which decreases the unencumbered balance.

Encumbrance of Allotments

As the amounts allotted prescribe limitations of expenditures which are not to be exceeded, the several allotment accounts should be charged with all known obligations as they are incurred. Such obligations are described as "Encumbrances Authorized" and cover such items as:

- Personal services, based on period of employment.

- Travel authorizations.

- Purchase orders covering purchase of materials, supplies, equipment, etc.

- Contracts for rent, heat, light, telephone, stenographic service, rent of equipment, etc.

The amounts of encumbrances in many instances are estimates, based however, on the best information available at the time. The amounts thus determined are entered in detail in the column headed "Encumbrances Authorized" on the allotment account to be charged, and reduce the amount of "Unencumbered Balance of Allotment." The entries in the general ledger accounts are made monthly from the "Register of Allotment Ledger Transactions."

A proper administrative control of allotments requires that they be encumbered in so far as possible to the end of the fiscal year. By this practice only may the balances in the accounts reflect possible savings or availability for additional expenditures.

Audited Vouchers

Approved vouchers are entered currently as passed to the Disbursing Officer for payment in the allotment ledger accounts, the entries in the general ledger accounts being made monthly from the "Register of Allotment Ledger Transactions." Adjustments on account of vouchers paid for a less amount than that previously recorded and vouchers which are subsequently cancelled are entered in reverse (red) in the "Audited Vouchers" column of the allotment ledger account previously charged, such entries increasing the unencumbered balance of the allotment and reducing the total of the "Audited Vouchers" column.

Encumbrances Liquidated

Amounts of obligations previously recorded in "Encumbrances Authorized" are entered in the "Encumbrances Liquidated" column of the same allotment ledger account, at the time and on the same line the disbursement voucher in payment thereof is entered in the "Audited Vouchers" column of the said allotment ledger account. Cancellations of previously recorded encumbrances may be entered as a reverse entry in red in the "Encumbrances Authorized" column or as a positive entry in the "Encumbrances Liquidated" column, either of which entries has the effect of increasing the unencumbered balance of the allotment. Entries in the general ledger accounts are made monthly from the "Register of Allotment Ledger Transactions."

Reimbursable Collections

Collections reimbursable to appropriations are entered currently as received, in reverse, in the column headed "Audited Vouchers" of the allotment ledger account previously charged with the disbursement (audited voucher) for which reimbursement is made and no adjusting entry of previous encumbrances is required. The effect of such entry is to increase the unencumbered balance of the allotment.

Division of Disbursement

Funds available under appropriations made to carry on the activities of the Agricultural Adjustment Administration, are advanced to the Disbursing Officer by the Treasury through the medium of an accountable warrant.

The Executive Order of the President, pursuant to the Act of March 3, 1933, which authorized the President to effect reorganization within the Executive Branch of the Government, transferred to the Treasury Department the function of disbursement of moneys of the United States previously exercised by the various agencies. The consolidated central disbursing office is called the "Division of Disbursement," at the head of which is a Chief Disbursing Officer. The "Division of Disbursement" is empowered to disburse moneys only upon the certification of persons by law duly authorized to incur obligations upon behalf of the United States, and the function of accountability for improper certification is placed squarely upon such persons, and the disbursing officers are no longer held accountable therefor.

ACCOUNTING AND REPORTING SECTION

In this section of the Comptroller's Office are maintained the records pertaining to the appropriations and funds made available under various Acts of Congress to the Agricultural Adjustment Administration.

1. Rental and Benefit Payments.

Disbursements to the producers under their commodity contracts are recorded by commodity, year's program, payment, State and county.

After summaries are prepared for posting these rental and benefit payments, the posting is done on bookkeeping machines.

The summaries are prepared by State and county from the schedules of payments, copies of which are forwarded to the Accounting Section by the Agricultural Adjustment Administration Section of the Division of Disbursement after payment has been made.

After all the summaries covering counties in a particular State are posted to the respective county sheets for each division of the accounts, the State sheet is then inserted and the State total is posted. These

postings are made over a proof or register sheet, county postings in one column and State postings in another. These columns should carry the same totals at all times when all the county postings in a State and the State total has been posted. This method enables the bookkeeping machine operator to detect errors in posting immediately by comparing machine registers. The total as shown by the register sheet for each day's business should be in agreement with the total of the vouchers involved, which has been posted against the appropriation account. These registers carry the cumulative payments for an entire month. The total is then posted to the proper general ledger accounts.

2. Field Disbursing Offices.

In the case of the programs for removal and conservation of surplus agricultural commodities, and the programs for drought relief, food conservation, and eradication of diseased cattle, the disbursements to the producers and others have been made from field disbursing offices.

The accounts current together with schedules of disbursements are submitted by the field disbursing officers to Washington each month; and after they are checked and reconciled the payments are recorded by commodity and location of disbursing office.

3. Administrative Expenses.

Budgets covering estimated expenses for the fiscal year are submitted for the approval of the Administrator by each office, division and section of the Agricultural Adjustment Administration; and when approved for each fiscal year they are set up on the records as allotments against which the administrative expenses are charged as the vouchers are passed for payment.

In addition to charging each administrative expense voucher against the respective allotment accounts, costs are kept by objective classification, such as salaries, supplies, communications, travel expense, transportation of things, printing and binding, purchase of equipment, and miscellaneous, for each allotment under the appropriations involved.

Since the basic setup is by commodities, it will be appreciated that the distribution of the administrative costs of the various organization units needs close watching,

particularly when a number of appropriations are involved. The appropriations may only be used, of course, for the purpose for which authorized by Congress.

TOTAL DISBURSEMENTS

Disbursements by the Agricultural Adjustment Administration under all types of programs to the close of September 26, 1935, were as follows:

Disbursements Under Commodity Programs Through September 26, 1935

Production Adjustment Programs	
Cotton	\$266,477,493.60
Cotton Options—Sale...	12,575,161.22
Cotton Options—Pool...	53,355,063.99
Bankhead Pool.....	15,833,421.08
Tobacco	45,260,464.92
Corn-Hogs	361,829,663.76
Wheat	199,541,152.42
Sugar	28,316,945.95
Rice	3,325,278.39

Total Production Adjustment	\$986,514,645.33
Removal and Conservation of Surplus Agricultural Products	
Wheat—Export	\$ 6,097,239.21
Hogs	45,622,025.04
Dairy Products.....	21,518,151.05
Sugar	365,536.44
Peanuts—Millers	750,583.15
Rice—Agreement	51,830.22

Total Removal and Conservation	\$74,405,365.11
Drought Relief, Food Conservation and Disease Eradication	
Cattle	\$126,208,087.48
Sheep and Goats.....	7,710,069.00
Seeds	18,717,210.72
Feed and Forage.....	55,200.11

Total Drought Relief, etc.	\$152,690,567.31
---------------------------------	------------------

Grand Total Disbursements... \$1,213,610,577.75

OUTLINE OF PROCEDURE FROM SIGNING OF CONTRACTS TO DELIVERY OF CHECKS

The contract form, and all related documents, are prepared in the respective Commodity Divisions in Washington. All such forms must be approved, in writing, by the Secretary of Agriculture before they are printed. Forms which are used as the

basis for payment must be approved by the Comptroller General of the United States.

An adequate supply of each printed form is shipped to each State concerned and distributed to the various counties.

The usual practice in the field is to have a Community Committeeman visit the producers and assist them in filling in the basic data on the contract form.

The contracts are submitted by the Community Committeemen to the County Committee where the basic data is reviewed and any necessary adjustments made.

All parties to the contracts are notified to present themselves to the County Office for the purpose of signing the contract form.

The contracts and all related documents in most states are forwarded to the State Office for examination by the State Board of Review. Defective contracts are returned to the County Committee for correction.

All contracts approved by the State Board of Review are forwarded to the Agricultural Adjustment Administration in Washington.

The contracts are submitted to the Comptroller of the Agricultural Adjustment Administration, and are audited in the Rental and Benefit Audit Section.

The contracts which are not acceptable in audit are returned to the respective Commodity Divisions for correction.

A contract card, upon which is punched identifying information and basic data, is prepared for each contract which has been approved for payment. From this card, a Notice of Acceptance is prepared and mailed to the producer.

The contract and all related papers are filed in the Office of the Comptroller for future reference.

Accounting cards are reproduced by machine from the contract cards. The accounting cards are then listed on payment schedules, which schedules are certified by the Comptroller to the Treasury Department and form the basis of authority for the issuance of checks. Supporting vouchers are approved for the total amount represented by the checks issued.

The payment schedules and the corresponding accounting cards are forwarded

to the Agricultural Adjustment Administration Section, Division of Disbursements, Treasury Department, for preparation of checks, receipts for checks and register of checks.

The checks and receipt forms are sent by registered mail to the authorized officer of the County Production Control Association, who is responsible for the delivery of the checks to the persons in whose favor they have been drawn.

GENERAL PROCEDURE IN CONNECTION WITH COMMODITY CONTRACTS, COMPLIANCES, ETC.

This General Procedure may be divided into four major parts as follows:

- Part I—General Administrative Instructions—outlining instructions applicable to all personnel;
- Part II—Signatures, Authorizations, Payees—outlining procedure to be followed in the audit of signatures, authorizations and payees;
- Part III—Central Production Control—outlining a plan for recording and controlling the flow of work by means of Punch Cards and Visible Production Control Racks; and
- Part IV—General Flow and Audit Procedure—outlining the steps which are more or less uniform in the handling of contracts for all commodities.

Comptroller's Office Procedure

With the enactment of the Agricultural Adjustment Act, the Administration was, of course, desirous of placing their machinery in motion as quickly as possible to meet the great emergency that existed in the farming areas at that time and every effort was made to prepare checks in accordance with the terms of the adjustment contracts as rapidly as possible. In setting up the Comptroller's office, we immediately decided upon the necessity for two shifts in the units involved in the actual handling of the contracts, and in some units, where the official notices of acceptances, payment schedules and checks were prepared, they were set up on a three-shift basis. With the tremendous volume of contracts and compliances anticipated our plans had to

be laid very carefully in order that this work could be handled in the most efficient manner and that adequate and proper records could be maintained at all times. If all of the contracts or compliances were forwarded to Washington, properly executed, almost any practical method of handling them could have been adopted, but since so many were improperly prepared, it made the problem more difficult and elaborate procedure had to be worked out to handle these irregular cases so that they would not unduly delay the settlement of the regular cases. A Correspondence Section, a Claims Section, a Violation Section, a Termination Section, a Legal Advisory Committee, all had to be organized, and speed in handling these irregular cases in these sections was also insisted upon. From our experiences with the earlier programs in the latter part of 1933, our knowledge of the problems increased and with refinements from time to time we gradually smoothed off the rough edges until today we have an organization in the Comptroller's Office of approximately 2,800 persons, set up to audit and make settlement on 50,000 contracts a day and from 50,000 contracts, approximately 65,000 checks will develop.

We have fashioned our plan along the lines of the large factory with its straight-line flow and organization geared for mass production. The problem of irregular cases is still with us, but through some extensive missionary work in the field the situation is greatly improving.

It is believed that well organized field offices can be set up to cooperate in improving the procedure for performing the preliminary audit work for all programs in each State, without materially increasing the cost of handling contracts in the field.

By this plan we hope to remove one of the principal causes of dissatisfaction among the contract signers, namely, delay in receiving payment because their contracts have been suspended in Washington. Those suspensions result, ordinarily, from errors made in the proper execution of documents in the field, or failure to understand instructions; and by having the contracts and other forms carefully checked in the field, the payments to the producers in many cases will be greatly expedited.

Program Estimates and Production Scheduling

Estimates are secured from the Commodity Sections as to their programs and when and over what period it is desired to make payments. Where possible, these estimates are coordinated into a well-balanced Production Schedule to avoid peaks and valleys in the production of checks. Approvals of such production schedules are procured from the Commodity Sections. The Operating Units of the Comptroller's Office are kept fully advised regarding approved production schedules, so they will have advance information as to the volume of work anticipated for future months and make preparations accordingly. Any matter causing delay in production is reported immediately to the Procedure and Methods Section of the Comptroller's Office, who contact the Commodity or other Sections to provide ways and means for overcoming such delay.

Operation, Description and Sequence

A Punch Card and Tabulating Machine System is utilized in handling the millions of contracts received, and in connection with the payments under the terms of the contracts.

The flow of contracts and compliances from the point of receipt to the mailing of the checks was broken down into *nine* major operations.

Operation 1 is known as the Central Production Control Unit.

With the thousands of contracts received daily in Washington from states all over the Union, it became necessary to establish some adequate and practical method for recording receipt of these documents and of controlling the production through all nine operations or units.

Immediately upon receipt, the date received is stamped on the contracts and compliances which are checked to the accompanying transmittal, which lists all documents submitted. Each county or block is worked as a unit, and to facilitate its handling is broken down into lots of approximately 100 contracts each. State and County Code numbers identify the block and lots, and in addition, the lots are numbered consecutively commencing with *one*. As stated before, each county or block moves through all operations as a unit so

that checks for the entire county may be mailed out together.

For each lot of contracts or compliances, a tabulating card that we refer to as a Master Card is prepared on a Key Punch Machine. This card shows the block and lot numbers, the Commodity Code and the number of contracts in each lot, and the total number of contracts in the block. Each commodity is assigned its own colored card for the purpose of easily identifying the commodity in process. The Master Cards are kept in what is known as a Visible Control Rack, which is partitioned off into *nine* sections, *one* for each operation in the flow. The *nine* operation cards are inserted in a near leather jacket and move along with their respective lot of contracts. As the contracts pass through each of the *nine* operations, the operation cards are returned to the Central Production Control Unit, indicating that that block of work has been passed on to the next operation. At the end of each day these operation cards, returned to the Central Production Control Unit, are tabulated on an electric accounting machine for our daily production reports. These operation cards are then matched with their respective master cards through means of a matching sorter, all those matching falling together in one pocket, and those not matching, rejecting in a second pocket. All the master cards that have been matched are then moved into the next section in the Visible Control Rack, which of course indicates that the lots which these cards represent have moved in to that particular unit. From this rack we are able to visibly check the work and note the failure of any unit to live up to their scheduled production. With each commodity having its own color, the rack presents a rather complete picture of work in progress. From this method, we are also able to locate with little delay the thousands of contracts for which letters of inquiry are received daily. In this unit we also maintain a group of scouts who are constantly furnishing the necessary information to Correspondents for answering these letters.

Operation 2

Each of the Commodity sections are represented in Operation 2 by groups handling their respective contracts and com-

pliances and have this opportunity of examining their documents for the purpose of determining whether or not they have been prepared in accordance with the field instructions. This step is rather an important one because of the delay cases in bad order might cause in the settlement of regular cases.

Operation 3

This unit is responsible for the proper scheduling of the work according to the preplanned schedule. At this point also paid contracts are withdrawn from the paid files and matched with their respective contracts at the time a compliance payment is being made.

Operation 4

Our Audit Unit is broken down into a number of sub-units, which allows auditing clerks to more or less specialize on particular commodities. We find that this method is extremely beneficial when the same sub-units day after day can be used in the auditing of the same commodity. They become familiar with that particular type of contract and compliance, and with the number of administrative rulings and changes in procedure which become necessary very often. Each sub-unit is made up of a sufficient number of comptometer operators to make all calculations and extend the amount of payment. Without any delay, the auditing clerks are then able to perform their function in accordance with the prepared procedure governing that particular type of contract. The number of contracts and compliances reviewed and audited by the entire Day and Night Forces during a normal working day will range from 35,000 to 50,000.

Operation 5

We have a rather interesting installation of tabulating machinery in our Machine Unit, numbering 160 machines in all, which represent ten different types, each playing its own part in the preparation of permanent record forms. It is one of the largest punch card operations in the world today. This unit is on a three-shift basis and it has not been unusual to have many of the machines turned on on Monday morning and not turned off until the following Saturday, not unless of course something mechanically interrupts its operation in the

meantime. We have some of the latest types of tabulating machines, including the alphabetic accounting machine, high speed reproducers, alphabetic key punch machines and mechanical multipliers. The punch card operators work directly from the contracts and punch for each interested party to the contract, a contract card which shows the State and County Code, Serial Number, the Name and Base information necessary for calculating the payment. These cards are mechanically verified and by means of our mechanical multipliers, calculations are made and punched in the card. By this method we have a very accurate check, when an adding machine tape of the figures inserted on the contract by our Comptometer operators, checks to a listing of these cards that have been calculated mechanically. From these same cards we prepare a Notice of Acceptance to the Producer advising him officially of the acceptance of his contract. From this set of cards we duplicate a second set by means of high speed reproducing machines and this set, known as the accounting cards, is later forwarded to our Disbursing Officer with the approved payment schedules. From the contract cards we are able to prepare tabulations of certain statistics contained in them which is helpful to the Commodity sections in planning succeeding programs. In preparing the compliance payment we are then able to withdraw from our file these contract cards which were prepared from the original contracts and by reproducing a second set, calculate this second payment and prepare our payment schedules with very little manual work involved. Approximately 110,000 cards are prepared daily in this machine unit and to date some 35,000,000 have been prepared in all.

Operation 6 is another Audit Unit, responsible for checking and certifying for payment the payment schedules.

Operation 7 is also a part of this Audit Unit and has the responsibility of mailing to the producers a formal notice of acceptance of the contract and mailing to the field the copy of the "Register of Contracts" and payment schedules.

Operation 8—Disbursing Office

The Agricultural Adjustment Adminis-

tration was the first agency of the Federal Government permitted by the Comptroller General of the United States and the Treasury Department to use tabulating card checks and automatic check signers with facsimile signatures. This unit has been organized for 75,000 checks per day working on a three-shift basis. The checks are written from this accounting card which was prepared in our Machine Unit. More than 16,000,000 checks have been issued aggregating over \$950,000,000. This unit is also equipped with the very latest type of tabulating machines and with this equipment very little manual work is necessary. It is interesting to note that it is possible to sort and tabulate 95 to 98 per cent of the checks returned to the Treasury Department, due to the usually good condition in which the punch card checks are received when passed for payment.

Operation 9—Paid Files Unit

A spacious file room is necessary in order to accommodate the files of paid contracts. Some 3,500 steel cabinets are filled to capacity at the present time.

Legal Aspects

Requirements had to be set up in the Comptroller's Office governing the acceptance of signatures and authorizations on contracts and related papers. Differentiation had to be made between acceptance of signatures of individuals who signed contracts and related papers in their own right, and signatures and authorizations of individuals, firms, or corporations signing contracts and related papers as agent, executor, administrator, guardian, committee, receiver, liquidator, or trustee.

A procedure also had to be set up for handling powers of attorney, letters testamentary, letters of administration, wills, deeds, trust agreements, court orders, and similar documents.

BUREAU ACCOUNTING SERVICE

The Bureau Accounting Service of the Department of Agriculture expanded its organization considerably due to the advent of the Agricultural Adjustment Administration and the commodity programs. Their new duties principally consisted of handling the payrolls and expenditures of the Extension Service on the enlarged field work, and the payrolls of the Agricultural

Adjustment Administration were also set up by them.

In the case of the field work of the Extension Service, certificates covering salaries of field workers are prepared by the county agents.

In some states these are checked in offices of the State Director of Extension, where copies are then prepared and sent in to the Bureau Accounting Service.

For the last fiscal year the number of these field employees averaged 34,000. The peak was reached in October, 1934, when the total of payroll entries reached 96,811, including the field workers on the drought relief program. All of these employees are on a per diem basis. As far as possible, local people are employed on this work.

FIELD ORGANIZATIONS

To illustrate the manner of conducting the field operations in respect to the adjustment programs, a brief outline will now be presented for the cotton and the wheat programs.

I. Field Organization Used in the 1934 and 1935 Cotton Acreage Reduction Program

The 1934 and 1935 Cotton Acreage Adjustment Program operates under the general supervision of the Division of Cotton, which division depends upon the cooperation of the State Directors of Extension in the administration of its field activities.

The State Director of Extension, in each cotton producing State, appoints, subject to the approval of the Cotton Division, a State board of review, consisting of from three to five members. This board must review all contracts and offers submitted by producers and determine for each county whether the total production, acreage and yields reported by producers are in line with official figures for the county. In addition, the State board has jurisdiction to review decisions of the county committee and its finding is final and binding upon both the producer and county committee.

In each county, a Cotton Production Control Association has been organized solely for the purpose of cooperating with the Secretary of Agriculture in making effective the provisions of the Agricultural

Adjustment Act in their application to cotton.

Each Association operates under the general supervision and direction of the Division of Cotton, and upon approval by, or on behalf of, the Secretary becomes the agency within the county for the administration of the Act in relation to the production of cotton.

It is a fundamental principle of the organization of the Association that the Secretary may, in his sole discretion, at any time when it shall appear to him that the conduct of the Association or its further existence is not furthering the purpose or intent of the Act, or that the Association is no longer necessary to effectuate the declared policy of the Act, withdraw his approval, whereupon the Association shall cease to exist. The Secretary, at his discretion, may order the organization of a new Association to take the place of any Association that has ceased to exist.

Any producer operating land within the county, and who has entered into a 1934 and 1935 Cotton Acreage Reduction Contract with the Secretary, becomes a member of the Association. There are no membership dues. When a member ceases to be a party to such a contract, he also ceases to be a member of the Association, and this fact, together with the determination of membership, is determined by the County Committee from the copies of contracts kept in the files of the Association. The decision of the County Committee as to cessation of membership is final and conclusive.

The County Agricultural Extension Agent is the representative of the Secretary of Agriculture in all matters affecting the Association. If an assistant in Cotton Adjustment is employed in the county, such assistant becomes an ex-officio member of the Association and secretary to the County Committee.

Each Association has one County Committee consisting of three members and one or more Community Committees of three members each. The County Agent designates the number of communities within the county upon the basis of the number of producer units within the county. Each community consists of at least 500 producer units.

In 1934 for the purpose of organizing the Association, the County Agent designated as charter members of the Association, producers who were eligible to participate in the program. Such charter members then selected the members of the County Committee, who were insofar as possible Committeemen who served in the 1933 Cotton Acreage Reduction Campaign. The County Committee then appointed the members of the various Community Committees.

In 1935, the organization of the Associations having been completed, the members of the Community Committees were elected by the members of the Association in each community at a meeting called for that purpose by the County Agent. The members of the Community Committees in the county then elected the County Committeemen.

Only those members of the Association who derived the principal part of their incomes directly from farming were eligible to serve as County or Community Committeemen; and no member was eligible who was holding an elective or appointive county, State or federal office—who had been within the past year, or who had become a candidate for any such office; who had been previously requested by the Secretary, or his authorized agent, to resign as a committeeman; or who was not a resident of the county for which the committee acted.

The names of all committeemen elected were then reported by the County Agent through the State Director of Extension Service, to the Chief of the Cotton Section, for approval.

The County Committee reviews all contracts, offers, or other matters filed with them by producers and makes recommendations to the Secretary or his authorized agent concerning the advisability of entering into such contracts or accepting such offers or the disposition of such other matters. The Committee determines the data and inserts in each contract or offer the data and recommendation which are necessary for the acceptance or disposition of the contract or offer. In the performance of these duties the Committee may hold hearings and conduct such investigations as are necessary.

Each Community Committee assists in obtaining, preparing, checking and approving contracts, and, when requested by the County Committee, must ascertain and report the total production of cotton for the community and obtain any other data necessary or desirable for the proper functioning of the program.

It is the duty of every Committeeman having knowledge of a violation of any contract, or of erroneous information, data or statements contained in a contract or offer, to inform the County Committee. The County Committee must take cognizance of every such report, investigate and ascertain the facts concerning the case and report their findings, actions or recommendations in writing to the county agent, who in turn must submit the report to the State Board of Review.

II. Field Organization for the Wheat Allotment Program

The Wheat Adjustment Program is operated under the general supervision of the Wheat Section of the Division of Grains of the Agricultural Adjustment Administration. In the administration of all field activities, the Wheat Section depends in general upon the cooperation of the State Director of Extension and the Extension Service under his supervision, with details in the actual handling of the contract program done through the cooperation of county Wheat Production Control Associations composed of the wheat growers themselves.

In each county there has been organized a county Wheat Production Control Association, the sole purpose of which is to afford wheat producers the opportunity of cooperating with the Secretary of Agriculture in making effective the provisions of the Agricultural Adjustment Act in their application to wheat. All the producers of wheat (whether owner, landlord or tenant) on land situated in the county, who have entered into a wheat allotment contract are members of the Association and take part in the program through the election of the members of their community committees and members of the board of directors of their county control association.

Upon approval by, or on behalf of, the Secretary the Association becomes the

agency within the county for the administration of the Act in relation to wheat.

There are no dues attached to membership in the association. The expenses of the Association are met by funds raised from deductions provided for in the Wheat Allotment Contract and/or assessments of members not to exceed an amount sufficient to cover reasonable compensation to members for services rendered.

The power and authority of the Control Association is vested in the board of directors. This board is composed of one community representative elected by the wheat producers of each community in the county. The members of the board of directors are also chairmen of the representative committees, to which two other members are elected at a meeting called for that purpose.

The board of directors thus chosen formally complete the organization of the Association by adopting the Articles of Association and electing its officers. The officers of the Association are elected by the board, and from its membership. In addition the board also elects two of its members, who, with the President of the Association as chairman, are known as the County Allotment Committee.

Once organized, the Association acts as an independent and self-sufficient organization, subject, of course, to supervision by the Wheat Section. The Secretary of the Association keeps all records and files of the organization and the treasurer has custody of all funds and the disbursements thereof.

The Community Committees assist in preparing, checking and approving all applications and contracts in their respective communities and must ascertain and report the total production of wheat for the community, including the production of those who are not cooperating in the program. In this work they are assisted by field supervisors, appointed by the Wheat Section from a list of names submitted by the County Allotment Committee, who visit and examine each farm, and, when necessary, measure fields, determine the utilization of contracted acreage and ascertain the use of fertilizer on the farm.

The County Allotment Committee must consider all applications for wheat allot-

ment contracts filed in the county and make recommendations to the Secretary of Agriculture concerning the advisability of entering into such contracts. Before making such recommendations, it must determine, for each applicant, and insert in his application, the base period, the average annual acreage and production, the farm allotment and the division of adjustment payments between landlords and share tenants, and adjust complaints regarding the correctness of such findings.

The members of the Community Committees, the members of the County Allotment Committee, the Secretary of the Association and the field supervisors may be allowed subsistence and expenses, and if the board of directors so decides and the Wheat Section approves, additional compensation for their services. These expenses may be met by assessments upon the members of the community group or the association or by deductions from the wheat adjustment payments.

COTTON PRICE ADJUSTMENT PROGRAM

A new segment of the Comptroller's Office, the Cotton Price Adjustment Section, now being organized, gives a good illustration of the scope of the work done in the field in connection with some of the special programs.

The Cotton Price Adjustment Program will operate until the end of the present cotton crop year (July 31, 1936), to assure to the producers of cotton an average return of 12c per pound for their 1935 crop. Producers who agree to participate in the Cotton Adjustment Program in 1936 will be eligible to receive payments.

The adjustment payments will be made upon the sale by cooperating producers, prior to August 1, 1936, of cotton produced by them in 1935, but not in excess of the allotment to the farm under the Bankhead Cotton Act. The payments to each producer will be the amount per pound by which the official average base price of cotton, base of $\frac{7}{8}$ " middling, on ten designated spot cotton markets is, on the day upon which the producer sells his cotton, below 12c per pound. The payments shall, however, in no case exceed 2c per pound. In case any producer has not sold the full amount of his allotment under

the Bankhead Cotton Act prior to August 1, 1936, and has pledged cotton as security for the loan authorized by the Commodity Credit Corporation on August 30, 1935, he will receive, on the cotton then under loan which when added to any of his 1935 cotton crop sold prior to August 1, 1936, does not exceed his allotment, a payment equal to the difference between such average spot price of cotton on July 31, 1936, the maturity date of the loan, and 12c per pound, less the unpaid carrying charges on the cotton under loan on July 31, 1936.

It is anticipated that the total disbursements under the proposed plan will not exceed fifty million dollars. The total allotment for 1935 under the Bankhead Act, which is the maximum amount of eligible cotton upon which payments could be made is 10,983,000 bales.

With over a million cotton producers involved in this program, it will be readily seen what a large volume of auditing and accounting work will arise in connection with this program. In addition to the Washington Office, about 17 field offices will be set up to handle the applications for these payments, and it is estimated that about 900 employees will be needed for the work.

FIELD AUDIT SECTION

In connection with the various programs involving purchases of commodities, it has been found necessary to set up field offices to expedite the auditing of the vouchers and to permit prompt payment to the vendors.

Vouchers audited in the field number approximately 1,000,000 to date, with expenditures of about \$212,000,000 involved.

As a part of the work of the Field Audit Section on these purchase programs, it is essential to conduct cost audits of the books and records of those seeking reimbursement in some cases, and such audits have been made in the case of packers, butter and cheese manufacturers, and grain elevators.

FIELD INVESTIGATION SECTION

The auditing and accounting activities of the Field Investigation Section embody generally the responsibility for all auditing, systematizing and general accounting relating to the administration and enforcement of Marketing Agreements and Or-

ders executed by the Secretary of Agriculture in connection with the programs of the Agricultural Adjustment Administration. This responsibility covers all funds provided in such documents, administered by Market Administrators, Control Committees or other agencies, except those in connection with government appropriations and trust funds.

The auditing and accounting duties of the Field Investigation Section also include the performance of special assignments involving the procurement of fiscal data necessary in litigation or in the administration and advancement of agricultural programs, and advisory services to departmental officials on various fiscal and accounting matters.

Auditing

Auditing activities of the Field Investigation Section may be logically divided as follows:

(a) Audits of books and records of Market Administrators, Control Committees and other agencies administering Marketing Agreements and Orders.

(b) Audits of books and records of handlers, producers associations, processors and others subject to the terms of Marketing Agreements and Orders.

(c) Audits in connection with the liquidation of funds collected, or otherwise held in trust by Market Administrators, Control Committees or other agencies,—including the mathematical accounting attendant upon final distribution of such funds.

(d) Audits involving special examinations of the books and records of organizations, commercial or otherwise—which are not necessarily subject to the provisions of Marketing Agreements and Orders but which are instrumental in, or directly related to programs of the Agricultural Adjustment Administration—to ascertain operating costs, financial responsibility and condition, etc., or any other special information necessary in litigation or in the furtherance of Agricultural Programs.

SYSTEMATIZING

The systematizing functions of the Field Investigation Section embrace the following activities:

(a) Installation and revision of account-

ing systems and fiscal procedures for Market Administrators, Control Committees, and other agencies administering Marketing Agreements and Orders.

(b) Preparation of uniform accounting systems for agricultural industries, upon request therefor.

(c) Drafting of special accounting forms for the use of handlers, processors, and others in reporting to various administrative branches of the Agricultural Adjustment Administration; preparation of forms to be used by the administrative branches in the recordation of data thus reported.

(d) Supervision of purchases of accounting books and records and printing of forms necessary in conjunction with systematizing.

(e) Instruction of employees in the operation of systems and procedures.

It may here be said that when, in the course of an audit, the books and records of Market Administrators, Control Committees, or other agencies administering Marketing Agreements and Orders, are found to be in such condition that immediate changes and corrections in the fiscal and accounting procedure are necessary, such changes are effected in conjunction with the audit. The commodity sections are notified of existing deficiencies and a complete installation usually follows.

1. Authorizations and Requests for Performance of Audits

Audits of the books and records of Market Administrators, Control Committees and other agencies administering Marketing Agreements and Orders are performed at specified intervals in accordance with general requests of the various Commodity Sections; audits of the books and records of handlers, producers associations, processors and others, subject to the terms of Marketing Agreements and Orders, are predicated upon specific requests emanating from the various Commodity Sections or directly from Market Administrators, Control Committees and other agencies; audits in connection with the liquidation of funds held by Market Administrators, Control Committees, or other agencies are performed in accordance with general requests emanating jointly or singly from the Commodity Sections and the Solicitor's

Office; special examinations are predicated only upon special requests for specific information and may be predicated upon requests or instructions from Bureaus, Divisions, Sections or agencies of the Department of Agriculture.

2. *Procedures Employed in Performance of Audits*

Auditing procedure for the periodical audits of Market Administrators, Control Committees, and the agencies administering Marketing Agreements and Orders must, of necessity, be subject to minor variations according to the peculiarities of various administrative documents and marketing policies. Revisions in procedure thus necessitated are effected by accountants handling the individual assignments. Consequently, men selected for these audits must be qualified to analyze and prescribe auditing procedure.

Procedure for liquidation audits, and in connection with special audit examinations are prescribed by the Washington Office. All procedures are prepared in accordance with approved auditing standards and in accordance with the needs of the various Commodity Sections.

3. *Preparation of Audit Reports*

The preparation of reports on auditing assignments constitutes the most important element of auditing work. Reports reflect the result of the audits, existing conditions and other information of utmost value. They afford a readily accessible source of information relative to operation of Marketing Agreements and Orders and other programs of the Agricultural Adjustment Administration. To emphasize the importance of report preparation and to indicate the detailed operations incident thereto, the report procedure is outlined as follows:

I. Reports are written by the accountant performing the assignment on a basis of audit findings as reflected in the accountant's working papers and personal observations. Reports are ordinarily written in collaboration with the Supervising Accountant under whose direction the audit was effected. After the report has been written it is submitted to the Supervising Accountant who performs the following operations:

1. Reviews report and makes such revision therein as he considers necessary.

2. Directs the verification of mathematical computation, documentary references, etc.

3. Makes notation of his approval on the report.

4. According to facilities available in his office, he either:

- (a) routes report to stenographers for typing and binding, and forwards typed report to Washington or

- (b) forwards report to Washington in rough draft.

Working papers are sometimes submitted with report if such action is considered necessary.

II. Reports, upon being received by the Washington Office, are handled as follows:

1. Reports are recorded and indexed in a report register, or

2. After recordation, the reports are submitted to members of the Staff for technical revision.

3. The review of reports by the Staff constitutes the most important phase of report preparation and embraces the following steps:

- (a) Standardization of reports in connection with form of presentation, statement forms, and administrative policies.

- (b) Technical review and revision based on most modern and approved accounting practices, particularly with request to financial statements and schedules in support thereof.

- (c) Editing of comments in the report to improve grammatical and rhetorical structure; to discuss facts according to comparative value and importance; to analyze the factual content in order to determine whether established administrative and fiscal policies had been followed; to incorporate such references to prior reports and such extraneous factual material as may be necessary to promote a more clarified understanding of the discussion.

- (d) Preparation of correspondence to Supervising Accountants, Administrative Officers and other interested parties relative to technical activities, suggestions for improvement, information concerning administrative and fiscal policies, etc.

4. After the completion of the Staff

review and revision, the reports are submitted in rough draft for final approval.

5. After approval has been obtained the report is transmitted to the Statistical Unit, where, after verification of all mathematical computations and references, the report is typed in final form.

With reference to the work of independent accounting practitioners in connection with the Agricultural Adjustment Administration activities, audits of Control Committees set up under Marketing Agreements have been made by them at various times. In one or two instances, auditors of the Agricultural Adjustment Administration have worked in conjunction with independent public accountants.

Numerous audits have been made by

public accountants for Milk Market Administrators, these audits involving the verification of payments by distributors to the Milk Market Administrator's Equalization Pool.

As a matter of fact, while this work is also done by auditors of the Agricultural Adjustment Administration on the audits termed by us, "Sales Use Audits," or "Compliance Audits," we favor the employment of independent practitioners for this work. One reason is that the units of an industry should bear the cost of the program in their locality. Most important of all, however, we know that the work of the certified public accountant can always be depended upon and that the courts will recognize him as an expert in case of litigation.

General Audit Program and Procedure

by HERMAN M. KNOELLER, LL.B., C.P.A., Milwaukee, Wisconsin

(Continued from page 593 October issue)

VII. Cash Received Record

1. Watch out for the following general cash frauds:

- A) Cash book balances forced by fraudulent footings and counter-balanced by changing footings of other account;
- B) Vouchers raised after original amounts approved;
- C) Bank statements and pass books altered or fictitious ones presented;
- D) Cash Sales withheld and not recorded.

If necessary, work back cash balance by verifying balance on books as of date of count and add disbursements from the end of the audit period to the date of count or verification, and deduct receipts for that period, thereby computing the balance at the end of the audit period.

2. Foot cash column and test footings of other columns.

3. Check receipts with bank deposits shown on bank statements and pass book.
4. Test details on deposit slips with entries in cash receipts book.
5. Test postings to accounts receivable thus: the balance of accounts receivable at the beginning of the year, plus the charge sales, minus the balance of accounts receivable at the end of the year, should equal the cash receipts applicable to accounts payable.
6. Check postings to general ledger.
7. Vouch miscellaneous receipts.
8. Scrutinize months not examined in detail.
9. Ascertain that all money received has been recorded.
10. Verify outstanding deposits and receipts undeposited.
11. Send out verification letters to banks after receiving letter of authority from client; inform banks that the balance desired is the balance after banking hours as of the stated date; at the

same time, inquire as to bank liens, notes receivable discounted, accounts receivable pledged, etc.

12. Ascertain if any employees' cash welfare or other accounts are or are not appearing on the books.
13. Reconcile bank accounts with certificates received and list the final reconciliation.
14. If large sums of cash are on hand, suggest investment or interest on deposits.

VIII. Check Register

1. Foot Cash Columns and test footings of other columns.
2. Compare cancelled checks with entries, auditing checks at the same time for amount, payee's name, cancellation, signature of maker and endorser, and stamp the checks with an audit stamp.
3. Vouch checks outstanding at end of previous period and at the end of the present period since returned by the bank, and make lists for reconciliation with the bank.
4. Scrutinize entries between months vouched.
5. Vouch direct charges.
6. Check postings to general ledger.

IX. Purchase Record or Voucher Register

1. Watch out for fraud in connection with:
 - A) Accounts payable, by failure to enter purchase allowances or credit memoranda to accounts, and pocketing the cash.
 - B) Paying out excessive amounts for purchases and receiving back a bonus.
2. Test footings and cross footings.
3. Check postings to general ledger.
4. Check control totals to plant, manufacturing, and expense ledgers—one month at the beginning and one month at the end of the period.
5. Compare vouchers of \$250.00 and over with entries, auditing vouchers at the same time, noting erasures, required approvals for quantities, prices and extensions, observing that vouchers are entered for correct amount and

no more, and that vouchers are real and are from real existing creditors; noting items to be verified from other records, such as: minute book, etc.; and finally stamping the same with auditor's stamp.

6. Scrutinize vouchers of subsequent period for liabilities applicable for the period under review and for merchandise included in inventory.
7. Test the receiving records and purchase orders, watching out for fraudulently issued orders or false and fictitious purchase orders.

X. General Journal

1. Check footings for balance.
2. Check postings to general ledger.
3. Scrutinize and verify all entries for the entire period.
4. Vouch large or unusual items, making notes thereon and conferring with officials when necessary.

XI. Sales Journals or Sales Invoice Binder

1. Watch out for the following frauds:
 - A) Including in the sales of the last month of the period under audit the sales of the first few days of the subsequent month;
 - B) Inflating cash sales by treating receipts from accounts receivable as cash sales, and adjusting the resulting discrepancy in the subsequent month;
 - C) Arbitrarily inflating or padding the accounts receivable (and, of course, the sales).
2. Test footings as carried to monthly recapitulation or summaries of sales.
3. Test and check monthly recapitulation of sales with duplicate invoices.
4. Test footings of monthly recapitulation of sales.
5. Test extensions and footings of invoices.
6. Test and check work audit records for accuracy in billing.
7. Test duplicate invoices with customers' purchase orders—at end of period—and determine the reason for old unfilled orders, and, if necessary, check salesmen's order books and inspect correspondence files.

8. Inspect shipping records, or teamster records or railroad records for period under review, and especially at the end of audit period.
9. Check postings to general ledger.
10. See that all cash sales are entered and at the correct amount.
11. Inspect cash sales slips and check cash receipts journal entries against bank deposits.
12. Investigate sales of scrap.
13. Investigate long-term contracts and eliminate any profits on partly-finished products which are being made for the general market; however, articles which are being made under an enforceable contract, capable of supporting an action at law, may be taken into the inventory at cost, plus a fair share of profits.
14. Eliminate capital sales of fixed assets, etc., and show them separately from the operating section of the Profit and Loss account—they may be credited to Earned Surplus or Capital Surplus.
15. Departmentalize the sales and prepare monthly recapitulations or monthly statements of sales.

XII. Sales Returns and Allowances Journal or Binder

1. Check monthly recapitulation with duplicate credit slips.
2. Check footings of monthly recapitulation.
3. Investigate method of authorization, and see that the debtor's account has been properly credited and the Merchandise or Perpetual Inventory properly charged for the returns, so that the stock clerk cannot make reshipments without an accounting.
4. Inspect the receiving records and compare the same with the duplicate credit slips.
5. Check the postings to the general ledger.

XIII. Payroll Records for Both Factory and Office

1. Watch out for padding or frauds, as follows:
 - A) Using fictitious names;
 - B) Using names of discharged employees;

- C) Overstating the time worked;
 - D) Pilfering uncalled-for envelopes on account of illness or temporary absence of employees;
 - E) Increasing salaries without authority.
2. Take complete charge of the payroll immediately after the payroll money has been brought from the bank, and institute a complete check of the envelopes put up and be present at the paying off; then list the unclaimed pay envelopes and present the same, together with the names of the employees whose pay is unclaimed, to manager, superintendent, or other responsible official.
3. Test footings, extensions and distribution of salaries.
4. Test rates from employees' records, and test and examine time tickets for accuracy and rates of pay.
5. Vouch and compare with entries and purchase record, cancelled checks and time card receipts; trace to all journals.
6. Verify total amount with check drawn to cover the same, and inquire as to deductions and unclaimed wages and salaries.
7. Prepare schedule of officials' salaries.

XIV. Manufacturing Ledger

1. Check trial balance of ledger accounts.
2. Test footings, and test and examine said accounts for full period.
3. Scrutinize transfers to costs of sales.
4. Examine all large contracts and orders on hand.
5. Look out for shifts from Inventory to Overhead.
6. Analyze large items and plant and equipment repairs.

XV. Expense Ledger

1. Watch out for frauds arising from:
 - A) Raised or erased expense bills.
 - B) Raised or erased freight bills.
2. Test and check footings and test certain accounts for full period.
3. Test and check trial balance with individual accounts.
4. Test and analyze General Expense and examine supporting vouchers.

5. Test and analyze Legal Expense.
6. Test and analyze dues and donations.
7. Test and analyze Taxes paid.
8. Test and analyze salaries paid and verify with minute book.
9. Test and verify salesmen's commissions with salesmen's contracts and record of sales.
10. Test and verify Rent paid by examining leases.

XVI. Notes Receivable Record

1. Watch out for padding by using worthless notes or discounted notes.
2. Prepare or obtain schedules of Notes Receivable, segregating the trade notes from officers' and employees' notes, and tracing renewal notes back to the originals, showing dates, names, amounts, and interest and collateral (if any).
3. Trace all transactions to cash record, thus verifying correctness.
4. Compare notes on hand with open items on record, and reconcile them with the amount shown in the controlling account in the General Ledger.
5. List discounted notes maturing after close of period.
6. List notes out for collection at banks, etc., and verify by direct correspondence.
7. Verify notes in transit.
8. Verify interest calculations and compute accrued interest.
9. Obtain certificates from banks for notes discounted.
10. Examine collateral held and prepare schedule.
11. Verify with all debtors by direct correspondence.
12. List checks held as accommodation notes; confer with treasurer as to collectibility, and compute reserve for doubtful items.

XVII. Accounts Receivable Ledger

1. Watch out for the following frauds:
 - A) A payment received from debtor properly credited, but charged to Returned Sales, Sales Discount, or Bad Debts, and the cash pocketed.
 - B) A remittance from debtor held out and not entered on the books

at the time (lapping), but later applying remittance from another debtor to the credit of the first debtor's account and pocketing the difference.

- C) Charging customers on the books for less than the amount billed and retaining the difference in cash when received.
 - D) Padding the Accounts Receivable by including worthless accounts, prepaid expense, long-term obligations, or inter-company accounts which are neither current nor real.
2. Obtain or prepare trial balance of individual accounts and reconcile with General Ledger controlling account.
 3. List and age the individual accounts, showing total amount due and days past due—30 days, 60 days, 90 days, and over.
 4. List and reconcile inter-company accounts.
 5. Verify with debtors by direct correspondence.
 6. Check against Cash Receipts journal, note register, and General Journal, carefully noting whether the credits from the General Journal have been approved by proper officials.
 7. Investigate Sundry Accounts and classify as good, doubtful, or bad by referring to correspondence files, shipping records and Returned Goods journal.
 8. Investigate accounts written off as bad.
 9. Consider anticipated losses through billings to and remittance in foreign currencies, and compute reserve therefor.
 10. Inquire as to custom of drawbacks and freight claims.
 11. Investigate credit balances and segregate the same from debit balances, and set them up as liabilities under Accounts Payable or Unearned Income (if deposits), depending upon their nature.
 12. Investigate debit balances arising from Returned Purchases, which should be separated from the customer's account and are really offsets to liabilities.
 13. Confer with the treasurer or credit

- manager as to overdue items and collectibility of accounts.
14. Inquire if any accounts have been pledged or assigned.
 15. Eliminate charges for goods out on consignment, and include the same in the Inventory.
 16. Prepare separate schedules of amounts due from officers and employees and other sundry accounts receivable.
 17. Test footings and postings and check all transactions in selected accounts for the period.
 18. Set up reserve for doubtful accounts by providing fully for accounts over one year past due, and providing partially for accounts less than one year past due, and consider the same in the light of the past credit losses on the percentage of sales or of accounts receivable.
 19. Set up proper reserve for cash and quantity discounts.
 20. Open up Bad Debt ledger and segregate accounts that have been definitely determined bad and actually charged off pursuant to income tax regulations.

XVIII. Inventory Records

1. In case of exceptionally large stock of goods, call in professional appraisers for special items.
2. Apply the gross profit test, as follows:
 - A) Obtain percentage of gross profit to sales for three (3) previous years; divide by three (3) to obtain average percentage of gross profit to sales, and
 - B) Subtract average gross percentage from 100%, and the remainder obtained is the percentage of cost of goods sold to Sales, and
 - C) Multiply the amount of Sales shown by the percentage of cost of goods sold and thereby obtain the amount of cost of goods sold, and
 - D) From the sum of the beginning or opening inventory, plus the purchases, deduct the cost of goods sold, and the remainder should represent the inventory at the close of the period.
3. Test footings and extensions with comptometer operator.
4. Obtain certificate of responsible official and copy of company's instructions in regard to taking of the inventory.
5. Ascertain the basis of valuation of the inventories at the start, and if the cost or market valuation, whichever is lower, was used.
6. Examine original sheets or tally tickets for calculations, extensions and footings which should be initialed by the one taking the inventory.
7. Verify the prices with creditors' invoices and the purchase and cost records.
8. Ascertain the present market prices and sale prices.
9. Verify work in progress and finished produce with test by cost records and perpetual inventory records.
10. Ascertain basis of inter-branch or inter-factory shipments.
11. Examine all large contracts and be satisfied with the customers' credit standing.
12. Investigate cancellation of orders in progress.
13. Watch out for padding and investigate for the inclusion of obsolete or inactive stock.
14. Eliminate goods held on consignment or on memorandum for others, and see to it that they are not included in the inventory.
15. See that no profit is taken on customers' orders until billed.
16. See that no goods are included in the inventory which have been sold and billed but not shipped.
17. See that liability has been set up for goods purchased and included in the inventory.
18. Note adjustments to bring inventory into agreement with book inventory.
19. Consider reserve for obsolete or inactive goods.
20. Make adjustment for fluctuations in inventory prices by charging expense and crediting allowance for inventory fluctuations, thus adjusting the perpetual inventory records temporarily, and after audit period reverse the entry by charging allowance for inventory fluctuation and crediting surplus account.

21. Test quantities of finished goods by taking a few representative items—opening quantity, production, sales, and closing quantity—and compare with quantity in inventory.
22. Prepare summaries of inventory by classification.
23. Prepare schedule of finished goods—large items showing quantities, inventory prices, total inventory values, selling prices, total selling values, and show percentage of gross profit.

XIX. Prepaid Expense Ledger

1. Prepare or obtain complete schedules, observing that tangible inventories, as supplies, etc., are sometimes excluded, and consider and classify them as working assets, for prepaid expense refers to intangible values. (This rule is not universal.)
2. Eliminate organization expense, bond discount, and stationery and advertising supplies.
3. Verify all calculations, especially as to insurance with insurance policies, interest with notes and accounts, advertising, selling expenses, rents and taxes.
4. Verify prepaid advertising and prepaid selling expenses, and be particularly conservative therewith, for current expenditures for sales and advertising should not be considered prepaid, but only extraordinary expenditures, as in the case of special sales campaigns or sales expense on orders for future delivery.
5. Test rates of amortization in writing off account to expense.
6. Where prepaid expense is only set up at the end of the audit period, the auditor should be sure that a similar adjustment was made at the end of the previous audit period. If not, it will be necessary to make adjustments at both ends, since the adjustment at the end of the current audit period alone will result in error.
7. Verify, in accordance with details, prepaid expense if set up at end of audit by analyzing the account, and make a similar adjustment for prepaid expense at opening period to avoid error by credit to surplus for prepaid expense accrued at the end of the previous audit period.

8. Examine insurance policies and list only as to asset covered.
9. Examine leases for rents prepaid.
10. Examine royalty agreements for royalties prepaid.
11. Verify minutely all appropriations set up.
12. Check basis of all charges to operation.

XX. Investment Securities Records

1. Prepare complete schedule showing description, date of purchase, face value, number, cost, interest rates, dividends received, and market value.
2. Verify and examine securities and watch out for shifting of securities between closely affiliated companies or individuals.
3. Obtain certificates for securities held by others.
4. Ascertain the market value or other basis of valuation.
5. Ascertain if any securities are hypothecated and list the collateral, and verify with creditors by direct correspondence.
6. Set up interest accrued on investments.
7. Reserve for doubtful items and see that no worthless securities are carried at face value.
8. Classify into investments held for operating expenses—current—and other investments held for financial purposes—fixed assets.
9. Investigate, examine and prepare schedules showing cost or basis of valuation of fixed investments, such as:
 - A) Stocks in subsidiary companies. Obtain copies of Balance Sheets of subsidiary company in order to support valuations.
 - B) Stocks in own company.
 - C) Treasury stocks.
 - D) Stocks or bonds acquired other than for cash.
 - E) Mortgages receivable should be examined for their terms, interest rates and security, and note made whether they are publicly

recorded and whether taxes have been paid on the security.

XXI. Organization Expense

1. Compare with minute book, correspondence files and promoters' contract and see to it that this account is not loaded or burdened with operating expense items.

XXII. Plant and Equipment Records

1. Watch out for padding by creating secret reserves or confusing capital and revenue expenditures.
2. Analyze account from very beginning, if this is first audit, and prepare schedules of all fixed assets, showing position at the beginning and end of the period, the treatment of replacements, depreciation, adjustments on old and discarded assets.
3. Note that insurance coverage is adequate by examining insurance policies and purchase invoices.
4. Vouch expenditures of \$500.00 and over, and observe that improvements should make the property more of a resource or greater producing income, and that the market or utility value prevails over the private opinions of the officials.
5. Examine architect's certificate, building contracts, purchase contracts, deeds, receipts and cancelled checks when vouching expenditures.
6. Analyze the credits to this account.
7. Classify and distribute income and expense of plant and equipment as follows:
 - A) Operating plant and equipment;
 - B) Expansion plant and equipment (Marginal Safety);
 - C) Investment plant and equipment.
8. Consider depreciation and adequacy of reserves therefor.
9. Examine company billings for fixed assets.
10. Obtain appraisal, if available and compare with group asset values.
11. Examine contracts for new properties and consider reserves and adequacy thereof.
12. Prepare schedules of leasehold, showing amortization over the life of the

lease and not pursuant to building depreciation.

13. Examine legal titles to property and make notes thereon.
14. Ascertain if properties are mortgaged, or if there are any liens, judgments, or clouds upon title.
15. Eliminate capitalized taxes, that is, annual taxes which are expense items, except in case of special assessments, which may be added to the book value.
16. Note that credits to the plant and equipment account should be at cost and not selling price, and that if the profit be small it may be set up as Non-operating Income, or, if large, credited to Surplus Adjustment account.
17. Check for rents receivable for property leased.
18. Check insurance policies for adequacy of coverage, and see if any have been cancelled and whether insurance checks, upon cancellation, have been properly deposited.
19. Prepare a schedule showing the net book value in proportion to net sales, showing previous year's figures.

(Concluded next month)

A Look at the Future

(Continued from page 648)

problems immediately before us is intended to be more suggestive than conclusive. There are others at hand that require solution; there are still others we perceive, less pressing now; we know the future will disclose some of which we are now unaware.

Fortunate we are, indeed, that we shall never see the solution of all our problems. The questions which confront us are the essentials of life and growth.

"Let others seek the noon-tide radiance of the sun of truth, but us, let content the milder luster of eternal dawn."

The proper function of a government is—to make it easy for people to do good, and difficult for them to do evil.

—Gladstone.

TALKING SHOP

A DEPARTMENT CONDUCTED BY LEWIS GLUICK, C.P.A., New York

Collier's weekly for September 28 contains a story by McMorrow which, as a story is not going to win any prizes, but which we recommend nevertheless. For it contains a brief account of how accountants go over the books of a business for a prospective purchaser; and tens of thousands of people, who could not be dragged into reading an article on the subject, will get a very valuable idea from this fiction story.

Receipt of a new publication, *The Accountant Digest*, is hereby acknowledged. We believe it will be of great value to the profession. Few accountants belong to more than two professional organizations and get the publications thereof. It is a physical impossibility for them to read all of the valuable material that appears in professional and trade journals. A mere list of articles is unsatisfactory; the titles tend to be stereotyped; the contents cannot be more than vaguely approximated. The new publication gives liberal samples from scores of sources. We wish it success.

Join the RED CROSS this month.

Boy, oh boy! Did we feel proud at Newark on October 8? In the July issue, page 435, we advocated passing out certificates to new men at a society meeting; and darned if that isn't just what George Kingsley did to the new crop of New Jersey C.P.A's. The attendance at the meeting was a record. 206 men and 4 women. We had our usual swell time.

This is the month to join the Red Cross!

Here's a pretty little puzzle clipped from the N. Y. *Evening Journal*. Try it on your clientele. Can you arrange one thousand pieces of money, coins or paper, in such a way as to amount to one thousand dollars?

The answer:

610 Pennies	\$6.10
100 Nickels	5.00
9 Dimes90
8 Quarters	2.00
110 Half-dollars	55.00
83 One-dollar bills	83.00
49 Two-dollar bills	98.00
10 Five-dollar bills	50.00
10 Ten-dollar bills	100.00
5 Twenty-dollar bills..	100.00
2 Fifty-dollar bills....	100.00
4 Hundred-dollar bills	400.00
1,000	\$1,000.00

TAXES

Remind your clients that donations to the Red Cross are deductible. In the case of Stern et al (CCA 8th 9/19/35) the court said: "Bookkeeping entries cannot take the place of nor create expenses incurred." No news to us C.P.A's but we'll bet some lawyers don't know it. The case of Buckhardt (32 BTA No. 184) presents two points of interest. The human element is that farming is an industry in the city of New York; the inhuman element is the needless hairsplitting as to the difference, if any, between "forthwith" and "immediately."

NAVY NOTES

The N. Y. State meeting on October 28 fell on Navy Day, so Jim Hughes invited all the Supply Corps officers in the 3rd Naval District to attend; and a good number did so. He appointed us head of a committee to greet and escort them, and we enjoyed that. On the 16th of October the movie "Shipmates Forever," opened at the Strand Theatre in New York and the publicity man, a Mr. Windisch, sent passes for the opening to 25 Reserve Officers, of whom we were one. It isn't as

good a picture, however, as "Annapolis Farewell," which we paid to see. We have been informed by the Navy Department that while the effort made last spring to enroll C.P.A.'s in the Naval Reserve had been reasonably successful, there were still vacancies for young accountants. If you are not certified but have a reasonable expectancy of being so in a couple of years, and are not yet 28 years old, the Navy will welcome you. Tell your staff too. On October 18 we watched a powerful Navy team lose by a single point to a light, fast team in New Haven, under weather conditions that were as ideal as will ever be had this side of heaven.

The RED CROSS needs your help.

KANSAS CITY NOTES

For an amateur our convention correspondent did a pretty good job. He said we were missed; but maybe that is just so we will feel good. He had a swell time at the Order of Twelve. Torbet of Chicago told about his pet question to prospective juniors. "Can you sell the balance sheet for its net worth?" Mr. Coons of the home guard said that it is most aggravating to have a junior add up all the account numbers and then complain because the sheet doesn't balance. Evidently the younger generation seems to be annoying the profession. Jim Hughes reports that progress was made in merging the Society and the Institute.

MACHINERY

The National Business Show in New York the week of October 14 was a pretty good indication that business was improving. The N. Y. State Society's private show on the 28th was a success, too. And in December the New Jersey Society is going to put on its first machinery exhibit. All of which must prove something.

HOBBY DEPARTMENT

Nesbitt Irvine of Florida likes golf tournaments and fresh water fishing.

RED CROSS

Shop Talkers

"Luck has nothing to do with auditing," said Blank. "I know that I sometimes describe things as 'lucky,' but that is just another of those conversational inaccuracies into which all of us fall. If an audit is properly performed, by a competent man, luck cannot enter as a factor; and bad luck, which so many of us blame for so much, is just a poor excuse for poor work."

"Listen," said the Kid. "Before I disagree with you, aren't you committing another conversational inaccuracy (there's a seven-dollar phrase for you, where'd you get it?) by forgetting there are two kinds of luck; good and bad?"

"As to the bad luck part," interrupted Oldtimer, "I agree with Blank, though I won't say that there is no such thing as bad luck. A really alert auditor will discount the bad luck."

"Easier said than done," replied Blank. "Now, just take this case."

"Just a second," said Philo. "You are all going off on a false start. You ought to agree first on a definition of luck. Otherwise you won't be talking about the same thing. Besides which, such general statements as Blank made are of necessity false, for even if he were right basically, every rule has exceptions."

"Man," said the Kid, "you must be getting to be a lawyer. These fine distinctions and quibbles about the meaning of this and that, do more to bring the legal profession into disrepute than anything else. It makes for contempt of the law. We all know what luck is. Let's hear Blank's yarn."

"Right," said Oldtimer. "Not that precision is unnecessary; but if any of us have erroneous ideas the rest will soon let him know it."

"I'll say so!" said Star.

"Funny part of this all, is that I was getting ready to tell about what passed for good luck," said Blank. "It happened a number of years ago that an old business man came to me and told me he was suspicious of his cashier and office manager, an old and trusted man. The books had never been audited and the employer did not want to insult his old faithful by bring-

ing in an auditor all of a sudden. So it was arranged that I should make a night examination. The proprietor would meet me and let me in after the suspect had gone home. We did that. I worked for several hours under light that was none too good; I was tired; my eyes did not seem to act right under the artificial light. A figure looked blurred. I lifted the cash-book page up towards the drop light to see it better, and suddenly I thought I was delirious; or that I had fallen asleep and was having a dream. For out of the page came new brown figures. I put the page down. I called the boss. He could not see them. We brought the page under the light; out they popped. It was then apparent that figures had been erased and written over. The heat from the electric bulb brought them out again. Well, when I kept books I made honest mistakes and used ink eradicator too, so I did not jump to a conclusion of fraud. Instead we subjected page after page to the heat test; noted the results; compared them with deposit slips, and so forth; and before dawn, had developed so much evidence that the cashier confessed immediately when he appeared at his usual hour.

"Now everybody I told that to said it was 'luck'; and to the extent that my tired eyes needed the light closer to the page it was. But the luck simply expedited the finding of the defalcation. Regular auditing methods for detecting lapping, confirmations from customers, detailed check of additions and discounts, would have revealed the way the books were cooked. Of course, it would have taken much longer and cost more. But luck didn't determine the audit."

"Very true," said Oldtimer, "but I fear that had you not found anything tangible that night, your client would not have readily had you continue by the detailed method."

"Well, here's another one Rover tells," said Star. "He had a client in the suburbs for whom he made a monthly audit of what is loosely called the general ledger type. The fee was modest and he always pushed to get through in time to get the five o'clock train back to the city. He didn't more than test the additions; and his client knew it and was satisfied. Fur-

thermore, the tests had shown nothing wrong. Then one day he finished a half-hour before train time. The client was out; no one to chew the rag with. Time had to be killed somehow. Rainy too, so no strolling around the little town. So he opened the cash book at random and started to add. The first column didn't jibe. He laid it to his inaccuracy and re-added it; same result. He added the whole page; and produced a nice case of forced balance. He forgot about trains. He added for the whole month; and wound up with a pretty case of defalcation. And you can't prove to him it wasn't luck."

"There is an element of luck there, no doubt," said Philo. "But the vital thing is that he was a good auditor such as Blank says eliminates luck. He added columns instead of just doing nothing. Of course, had he been an even better one, he would never have been satisfied with a test check."

"Whoa!" said the Kid. "If we ever get started on when and how much to add, none of us will catch our trains."

The C. P. A.

Oh, could you but accompany him
Throughout his busy day,
You'd thank your stars and say, "thank
God,
I'm not a C. P. A."
Then, through the darkest hours of night,
He burns the good old oil,
While in their beds, his clients sleep,
He lives his life of toil.
Oh, fitfully his dreams concern
Perplexities and stress;
Until he wakes at length and wonders
How he got into this mess.
Oh, surely, gentle friends, take heed,
There's truth in what I say,
He really needs your sympathy—
The poor old C. P. A.!!!

By JANE ALLEN SEARSON

(Daughter and Secretary of
one of the above mentioned.)

Service Charges—Sugar-Coated

(From *North Pacific Banker*, July, 1935)

It was a bold stroke the other day when the National Safety Bank and Trust Co. of New York City, making a virtue of necessity, began letting the public in on a great secret, namely, that banking service is now available to them, at a price. No excuses, no apologies, accompany the sad announcement. Instead we see an enterprising merchant, believing in his wares, and selling them to a needing public.

Under the imposing title of "check-master plan" the bank tells how the depositor now has the privilege and convenience of a checking account without requiring a minimum balance and without levying a monthly charge. No longer must he keep a balance of \$200 or more a month and subject himself to a monthly charge of \$1 or \$2. The new plan allows no service charge. Rather, the bank simply charges a commission of five cents for each item deposited and for each check issued.

We can imagine the officers of this bank collecting in the inner sanctum congratulating one another that a rose by any other name smells just as sweet. It should bring in the money just the same. Overhead is cut down by mailing statements only quarterly, and retaining vouchers at the bank, permanently on file. Should a depositor want one of these vouchers to prove payment of a bill or any other purpose it is his "by paying a minimum charge." Should the depositor, in his enthusiasm, overdraw his account, the bank issues him a gentle reminder in the form of a \$1 penalty for each item.

Putting vision into common-place things may be a mark of advanced genius. It may be so here with this "checkmaster" plan of more life in the bank's price schedules and more consequent reality in its profit column. Let us hope so. But it is hard to forget that, up to the present time, even the Federal Administration can't keep this from being a buyer's market or at least one in which the latter has something to say. He can see his own cancelled checks, if he pays for it. Well, that's gone 'some.

Raising C.P.A. Standards

by BORIS BAIEVSKY, C.P.A.,
Washington, D. C.

In considering the requirements for a successful C.P.A., it seems to me that insufficient attention has been given to the mental make-up of the man himself. A C.P.A. worthy of the name, in addition to a wide educational background, enabling him to understand people and situations, should have:

1. The power of observation and analytical ability;
2. Imagination, which permits him to visualize things, people, their actions and motives, which are behind the records and figures.
3. Positive, i.e., constructive attitude, as contrasted with a negative frame of mind;
4. Ability of expressing and presenting facts, trends and ideas;
5. Faculty of approaching and handling people and overcoming their pet prejudices;
6. Ability of instructing personnel—his own and that of his client.

A person aspiring to become a C.P.A., unless he possesses the above mentioned qualities, will be a liability to the profession; and a disappointment to himself, because with mere technical knowledge as his tools, such an accountant cannot help but remain a cog in the machine, and although an important feature in an accounting organization, still necessarily relegated to a subordinated position, being without any hopes of reaching the top position in his firm or becoming a successful independent practitioner.

I understand that several medical colleges refuse admittance to applicants who lack certain traits which are considered indispensable for becoming a successful medical man. Why should not the same method be used in regard to aspirants for a C.P.A. certificate, who are patently unfit for C.P.A. work? Such a course would save these persons from being frustrated in their life ambition; the profession, from deadwood; and society in general, from the loss of citizens, who may be quite useful in some other field of activity.

C. P. A. Examination Questions

May, 1935

Economics and Public Finance

QUESTION 1:

Define the following terms: "Goods," "Free Goods," "Economic Goods," "Utility," "Marginal Utility," "Demand," "Elastic Demand," "Inelastic Demand," "Supply," "Exchange Value."

QUESTION 2:

There is a provision in a bill now before Congress providing that a 100% tax shall be levied on what are known as "War Profits." Explain the economic theory underlying such a bill.

QUESTION 3:

Name and explain the ways in which double taxation is said to exist in this country, taking into account all forms of taxes levied by either Federal, State, or Local Governments.

QUESTION 4:

(a) What functions has money under present economic conditions? (b) What effect on the general level of prices is noted by a sudden sharp increase or decrease in the money volume? (c) What effect do changes in quantity of money produce on bank credit?

QUESTION 5:

Explain the economic theories under which three brothers receive rewards for their services as follows: One has risen to an administrative position in a large industrial concern and draws a salary of four thousand dollars a month. The second has reached a position in his professional career as a lawyer which nets him an income of twenty thousand dollars a year. The third, from his efforts, never passed beyond the day-laborer stage, and, although regularly employed, he has not received at any time an income to exceed twelve hundred dollars a year.

QUESTION 6:

Explain the theory on which the income derived from business is distributed among the various factors involved in the establishment and maintenance of that business.

The Service of Examination questions conducted by The American Society furnishes practically twice as many questions in Theory, Auditing, Commercial Law and Economics and Public Finance as could be used by any State Board for a four-hour examination period, and twice as many problems in Practical Accounting as would be required for two examination periods of four to five hours each. A Board using the service makes its own selections and adds any special questions or problems which it desires. The questions in Economics and Public Finance follow.

QUESTION 7:

In the present-day attempts at solving the problems growing out of the world-wide business collapse, how would you distinguish between the fields of economics, sociology and ethics as factors which should be considered?

QUESTION 8:

Much discussion is now being had in governmental circles, both Federal and State, with regard to the American banking system in general, some believing that there should be but a single Federal banking plan with State supervision entirely released, others believing that the present dual system is the best, but that it needs changing at several points, and a few have even suggested that the Federal system should be eliminated. If you had the power to write a law which would cover all of the banking activities in the country, what plan would you write into the law? Do not attempt to detail too closely, but indicate general provisions.

QUESTION 9:

Indicate whether true or false and explain the following: (a) Monopoly prices can be and sometimes are lower than the prices under freely competitive conditions. (b) The selling price of a piece of land is derived from and is dependent upon the annual rent which the land yields. (c) The state has no moral right to tax some people in order to get money to aid others.

QUESTION 10:

What were the economic effects of the United States going off the Gold Standard: (a) From an international standpoint? (b) From an internal standpoint?

QUESTION 11:

Collective bargaining is provided for under 7A of N. R. A. Explain the difficulties which have arisen with reference to what are known as "Company Unions" as distinguished from the American Federation of Labor Union.

QUESTION 12:

The Guffey Bill seeks to legally classify the coal mining industry as a public utility. As introduced, it specifically provides that allowance shall not be made in determining cost for either depletion or depreciation. Explain your views on this matter.

QUESTION 13:

In recent years there has been an increasing tendency in the administration of large industrial or business concerns to effect a separation of ownership and management. While at the beginning in nearly all cases the owners were the managers, it is now true that a large percentage of managerial individuals do not have an ownership interest the equivalent of a year's salary. What are the economic effects of this changed condition?

QUESTION 14:

Explain the economic points involved in Dr. Townsend's Old Age Plan and Senator Long's Share-the-Wealth Plan.

QUESTION 15:

The Work-Relief Bill, carrying the largest peace-time appropriation ever made, has been styled a bill to abolish the dole system. President Roosevelt has laid down the following seven rules for its spending: "1. All jobs must be useful, resulting in permanent improvement in living conditions or future new wealth for the nation. 2. Wages paid are to be larger than the dole but not so large as paid by private industry, so that incentive to take private work will not be lost. 3. A large percentage of the work must provide direct labor. 4. Preference will be shown projects that are self-liquidating with reasonable prospect that the Government will get its money back. 5. Projects will compete as little as possible with private industry. 6. Jobs are to continue until private work is available. 7. Employment will be concentrated where most of the workless are located." Comment on each rule, indicating whether from an economic point of view its effect is likely to be permanent or temporary.

QUESTION 16:

An undisputed statement has been made and printed to the effect that while all securities listed on the New York Stock Exchange have gained in quoted values $18\frac{1}{2}$ billion dollars since January 1, 1933, the quotations on utility securities have shown a $3\frac{1}{2}$ billion dollar loss since January 1, 1933. This discrepancy is probably accounted for by the special drive on the utility field. Discuss the arguments made pro and con with reference to the legislation particularly aimed at utilities.

Questions and Answers Department

EDITOR, STEPHEN GILMAN, C.P.A., Educational Director
International Accountants Society, Inc.

Solution to Problem 8 of May, 1935, Examination Service of The American Society of Certified Public Accountants, published on pages 567-568 of the September, 1935, issue.

This problem calls for an analysis of an account, the details of which are given in a descriptive style.

The candidate should first give some thought to the general "layout" and appearance of his analysis sheet. In order to save some duplication of work in writing repetitive descriptions a columnar arrangement obviously is desirable.

Either of two methods may be used in listing the items and "spreading" them on the analysis sheet:

(1) After space is provided for listing the balances at the beginning of each period, the candidate may read through the problem and list all receipts in the order of time, at the same time indicating, by marginal notes the various disbursements. He may then strike his totals and, picking up the disbursements from his marginal notes, list those in order.

(2) He may use two separate sheets, one for receipts and the other for disbursements, and classify and list each of the items in the order given in the problem. The two sheets are then combined.

The second of these methods was regarded as being preferable in preparing this solution.

A AND B, TRUSTEES

Analysis of Trustees' Cash Account
for period, July 1, 1932—December 1, 1934

Date

	Cash Balance, beginning of period.....	
	<i>Add</i> —Receipts of Cash:	
6-16-32	Paid into Trustees' Funds:	
	by C—250 shares @ \$25.....	\$ 6,250.00
	“ D— 30 “ @ 25.....	750.00
	“ E— 25 “ @ 25.....	625.00
	“ F— 95 “ @ 25.....	2,375.00
7-10-32	Proceeds of 1-year, 5% loan (interest deducted) ..	
	Royalties Received from Operators:	
6-30-33	7,230 tons @ \$2.....	\$14,460.00
12-31-33	10,433 “ @ 2.....	20,866.00
6-30-34	16,187 “ @ 2.....	32,374.00
12-31-34	15,208 “ @ 2.....	30,416.00
	Total Cash Receipts.....	
	<i>Deduct</i> —Disbursements of Cash:	
6-16-32	Purchase from A and B of exclusive right and title to patent applications and resultant letters patent	\$10,000.00
	<i>Less</i> —Amount paid by issuance of 200 beneficial- interest shares @ \$25.....	5,000.00
.....	Process Development, Legal and Other Expenses	
	Promoter's Commission Paid:	
6-30-33	7,230 tons @ 25c.....	\$ 1,807.50
12-31-33	10,433 “ @ 25c.....	2,608.25
6-30-34	16,187 “ @ 25c.....	4,046.75
12-31-34	15,208 “ @ 25c.....	3,802.00
.....	Trustees' Fees @ \$10 per month each.....	
7-10-33	Repayment of 1-year 5% loan.....	
.....	Distribution of Dividends (see schedule below: Total Cash Disbursements.....	
	Cash Balance, end of period.....	

Schedule of Distribution of Dividends

		<i>Total</i>
		<i>600 shares</i>
6-30-33	600 shares @ \$17.00 per share.....	\$10,200.00
12-31-33	600 “ @ 29.00 “ “	17,400.00
6-30-34	600 “ @ 47.18 “ “	28,308.00
12-31-34	600 “ @ 46.00 “ “	27,600.00
	Totals	<u>\$83,508.00</u>

A AND B, TRUSTEES

Analysis of Trustees' Cash Account
for period, July 1, 1932—December 1, 1934

<i>Total</i>	<i>For six months ending</i>				
	<i>Dec. 31, 1932</i>	<i>June 30, 1933</i> \$ 1,163.65	<i>Dec. 31, 1933</i> \$ 3,496.15	<i>June 30, 1934</i> \$ 1,233.90	<i>Dec. 31, 1934</i> \$ 1,133.15
\$10,000.00	\$10,000.00				
2,850.00	2,850.00				
		\$14,460.00			
			\$20,866.00		
				\$32,374.00	
98,116.00					\$30,416.00
<u>\$110,966.00</u>	<u>\$12,850.00</u>	<u>\$14,460.00</u>	<u>\$20,866.00</u>	<u>\$32,374.00</u>	<u>\$30,416.00</u>
<u>\$110,966.00</u>	<u>\$12,850.00</u>	<u>\$15,623.65</u>	<u>\$24,362.15</u>	<u>\$33,607.90</u>	<u>\$31,549.15</u>
\$ 5,000.00	\$ 5,000.00				
6,566.35	6,566.35				
		\$ 1,807.50			
			\$ 2,608.25		
				\$ 4,046.75	
12,264.50					\$ 3,802.00
600.00	120.00	120.00	120.00	120.00	120.00
3,000.00			3,000.00		
83,508.00		10,200.00	17,400.00	28,308.00	27,600.00
<u>\$110,938.85</u>	<u>\$11,686.35</u>	<u>\$12,127.50</u>	<u>\$23,128.25</u>	<u>\$32,474.75</u>	<u>\$31,522.00</u>
<u>\$ 27.15</u>	<u>\$ 1,163.65</u>	<u>\$ 3,496.15</u>	<u>\$ 1,233.90</u>	<u>\$ 1,133.15</u>	<u>\$ 27.15</u>

Schedule of Distribution of Dividends

<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
<i>100 shares</i>	<i>100 shares</i>	<i>250 shares</i>	<i>30 shares</i>	<i>25 shares</i>	<i>95 shares</i>
\$ 1,700.00	\$ 1,700.00	\$ 4,250.00	\$ 510.00	\$ 425.00	\$ 1,615.00
2,900.00	2,900.00	7,250.00	870.00	725.00	2,755.00
4,718.00	4,718.00	11,795.00	1,415.40	1,179.50	4,482.10
4,600.00	4,600.00	11,500.00	1,380.00	1,150.00	4,370.00
<u>\$13,918.00</u>	<u>\$13,918.00</u>	<u>\$34,795.00</u>	<u>\$ 4,175.40</u>	<u>\$ 3,479.50</u>	<u>\$13,222.10</u>

Seen In Published Financial Statements

by W. T. SUNLEY, C.P.A., Chicago, Illinois

AT THE HEAD OF THE INCOME STATEMENT
FOR the purposes of this study of income statements there were removed from the hundreds of 1934 published reports the reports of all utility companies and of all companies whose principal source of income is not from sales of something, whether of service or of merchandise. All of these companies were excluded because their income classifications are hardly comparable with those of manufacturers, merchandisers, and extractors of natural resources. Except as otherwise specifically noted, all comments hereinafter in this article result from analyses made after the exclusion of the companies mentioned above.

Wide Use of Income Statements.—It was surprising to note how few of the 1934 reports omitted the income statement, by whatever name known. In prior years the number which showed no detail whatever of annual results was noticeable, but for 1934 only 2½% of the reports examined (as described in the first paragraph of this article) failed to present some kind of an income statement.

It is true that the statements varied greatly in the amount of detail presented, but it is equally evident that the tendency is to be constantly more detailed. Not only has the percentage of income statements increased, but the average number of items has increased.

There were, however, a few such statements which evidence condensation from the statements of the same companies for the preceding year, but the executives of each such company have probably had to answer inquiring letters from their stockholders to an extent sufficient to make them realize the growing interest in financial reports.

Perhaps the shortest American income statement examined was that of PAN AMERICAN AIRWAYS CORPORATION AND SUBSIDIARIES

Consolidated Statement of Income and Profit and Loss for the Year Ended December 31, 1934
 Income from operations, including interest and other income; also adjustment for \$28,388.93 of ac-

counts previously charged off which are being paid.....	\$9,642,568.71
Less—Operating Expenses, including salaries, maintenance, depreciation and amortization; provision for income taxes, sundry balances written off, and adjustments of foreign currency accounts of and interest in subsidiaries	8,578,097.46

Balance of Consolidated Net Earnings of Pan American Airways Corporation and Subsidiaries for the year ended December 31, 1934— to Surplus	\$1,064,471.25
---	----------------

Standard Form.—For years a standard form of income statement has appeared in the text books. This standard form can seemingly never be followed exactly in the actual practice of large corporations, but the following statement perhaps approximates it as closely as any:

WILLIAM BONIFAS LUMBER COMPANY SUMMARY OF NET INCOME FOR THE YEAR ENDED DECEMBER 31, 1934	
NET SALES	\$913,843.13
COST OF SALES (including provision for depreciation, \$24,445.28 and depletion, \$138,329.81)	896,794.29

GROSS PROFIT FROM SALES..	\$ 17,048.84
COMMISSIONS FROM SALES OF TIMBER FROM OTHER THAN COMPANY LAND.....	59,582.89

GROSS PROFIT FROM SALES INCLUDING COMMISSIONS SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES..	\$ 76,631.73
	34,051.87

PROFIT FROM OPERATIONS..	\$ 42,579.86
OTHER INCOME CREDITS:	
Rentals and management fees	\$7,752.24
Other	755.16
	8,507.40

GROSS INCOME	\$ 51,087.26
INCOME CHARGES:	
Loss from disposal of equipment	\$ 750.52
Federal income tax provision	9,637.63
	10,388.15

NET INCOME FOR THE YEAR	\$ 40,699.11
-------------------------	--------------

Objections to Disclosure of Volume.—

Many corporation executives have what amounts almost to an instinctive fear of

the disclosure of volume. Of the examined income statements of manufacturers, merchandisers, and extractors of natural resources, exactly 50% failed to indicate the volume of business. While no such complete study was made of 1933 reports, it is believed that the 1934 percentage represents a decrease in the number of companies which withhold this information.

As the Federal Securities and Exchange Commission requires that all listed companies disclose their "Gross Sales Less Discounts, Returns and Allowances" in Form 10 for Corporations, a public document, it is to be expected that constantly fewer corporations will consider it beneficial to avoid disclosing volume in their published reports. In speaking of this requirement of the Commission, T. H. Sanders says:¹

"The most important question here is that of requiring the disclosure of the amount of sales and of cost of goods sold, a question which continues to be actively debated. After listening to many of these arguments in many places I cannot but feel that the Commission has done the only possible thing in making this disclosure a general requirement, bearing in mind the opportunity open to companies to apply for confidential treatment of these items if they so desire. But I will go further, and say that in my judgment some companies which may be contemplating such an application would in their own and the general interest do better not to make it. It is not possible here to introduce all the arguments involved, but the cogent ones seem to me to be as follows. It has, in many cases where sales figures have already been published, been shown that the fears which preceded their publication turned out to be unfounded. There are cases where damage is claimed to have resulted to the company, but it is difficult to associate the damage directly and exclusively with the publication, or to say that it would not have resulted in any case. The argument about providing powerful competitors or powerful buyers with too much ammunition, while undoubtedly having force in some cases, is also subject to discount; such competitors and buyers, if they are interested, usually have pretty shrewd notions as to what these figures might be. I do not wish to be taking the cheap and easy position of belittling the difficulties of others, but after considering all these arguments very carefully I cannot but feel that the dangers of publishing these figures are less serious than many have felt. An official of one company which has desired not to publish its sales stated frankly that he believed that their fears were largely those of venturing into the unknown; never having experienced such publicity they

feared what might happen mainly because of not knowing what would happen. Others have said that, although in their opinion the time was not yet ripe for requiring publication of these figures, yet it was only a matter of time, say five or ten years at most, before such publication should be required. In face of all these conflicting views I think the deciding argument is that publication is the remedy for a number of troubles which beset business; on the one hand it reduces the area of surmise and guessing among investors and speculators as to what is going on; on the other hand, it reduces the area of misrepresentation, whether friendly or malicious, which critics of business are able to engage in. Although, therefore, the emotion is very natural which

'... makes us rather bear those ills we have Than fly to others that we know not of' yet the present seems to be a tide in the affairs of men when the latter course is the better part of wisdom."

Starting Point When Volume is Not Disclosed.—Of the 50% of income statements which did not disclose sales, $\frac{1}{3}$ started the statements with gross profit (sales less cost of sales) and $\frac{2}{3}$ started with operating profit or a similar caption (gross profit less selling, administrative, and general expenses). Illustrations of the display of these items appear later in this article.

Gross Sales or Net Sales.—Relatively few corporations consider it worth while to disclose gross sales as distinguished from net sales. Perhaps one reason for this is the smallness of the returns, allowances, etc., which constitute the difference; perhaps another is the fear of encouraging other customers in making returns and requesting allowances; possibly a third is the lack of standardization in practice as to what constitute proper deductions from sales as distinguished from expenses.

Gross sales are the gross invoice billings, without deduction of any kind. The only proper debits to a gross sales account are corrections of actual errors in quantities, prices, or extensions in those billings.

The billing price, however, is often reduced before collection. Some of the causes of such reductions constitute the difference between gross sales and net sales; others are purely expenses and should be so classified; as to others there is a decided difference of opinion.

As said, few industrial or merchandising corporations display the gross sales, as distinguished from net sales. One of those

¹"The New York Certified Public Accountant," Vol. V, No. 3, pp. 20-21.

which do is Superior Steel Corporation, which shows:

GROSS SALES	\$3,209,332.37
LESS FREIGHT AND ALLOWANCES	53,791.40
NET SALES	\$3,155,540.97

Display of Net Sales.—There is a wide variance in the terminology used when net sales are shown as the initial item on the statement. The Fair-Chicago uses the simple caption:

Net sales	\$17,769,982.86
-----------------	-----------------

The display by Chrysler Corporation is even simpler:

Sales	\$362,254,625.84
-------------	------------------

General Electric Company shows:

Net sales billed.....	\$164,797,317.19
-----------------------	------------------

American Colortype Company uses the caption:

Shipments	\$5,543,101.76
-----------------	----------------

United States Rubber Company is specific:

NET SALES, after all returns, discounts, excise and sales taxes, transportation and allowances	\$105,476,872.31
--	------------------

The American Rolling Mill Company speaks of "gross sales less" instead of "net sales after":

GROSS SALES, LESS RETURNS AND ALLOWANCES, ETC.	\$54,485,114.73
---	-----------------

The Goodyear Tire & Rubber Company, like Superior Steel Corporation (illustration in next section above), deducts freights in reaching the net sales figure:

NET SALES (returns, discounts, freights, allowances, excise taxes and intercompany sales deducted).....	\$136,800,764.04
---	------------------

Most accountants object to the deduction of out-freight from gross sales in arriving at the net sales figure, considering such freight an expense item. It is true, of course, that freight out is often allowed or absorbed in order to bring the sales price into competition with that of a nearer manufacturer, but it does not seem that this justifies treating the freight as a reduction of sales volume any more than would be the case if the distant manufacturer maintained a distributing warehouse near his customer and paid the freight to this warehouse instead of to the customer.

If freight-out is to be treated as a reduction of volume, there must be a line of demarcation somewhere between that freight and the day-by-day delivery service of a department store. As no such line of demarcation can reasonably be found, it would seem that both should be considered cost of expense, and neither a reduction of volume. The statement of The Eastern Rolling Mill Company, quoted later herein, illustrates such a treatment.

Cost of Sales.—In this article the term "cost of sales" is generally used instead of "cost of goods sold" because the former term includes the cost of services sold as well as the cost of merchandise sold. The author prefers the use of "cost of goods sold" in all those cases in which it is sufficiently inclusive.

In a manufacturing business the cost of goods sold includes both direct and indirect costs of producing the product, but in the case of neither the manufacturer nor the merchandiser does it include any selling or administrative expense (excluding factory supervision from the latter). The cost of goods sold of the construction corporation includes all charges applicable to specific contracts.

Unfortunately from the standpoint of ease in statement preparation, the cost systems of many corporations do not include as cost of manufacture all of the elements which actually enter into such cost. If any one of these is excluded from cost of goods sold, to be shown farther down in the income statement, it is considered necessary to expand the Cost of Goods Sold caption to record the omission. Examples of such expansion and of failure to recognize the desirability therefor appear later in this article.

Display of Cost of Sales.—Of those income statements which start with sales, 47% show cost of sales separately, arriving at gross profit before deducting general expense; and 53% combine cost of sales with general expense, passing over the gross profit without indicating it.

In Form 10 for Corporations the Federal Securities and Exchange Commission require the specific and separate disclosure of "the amount of cost of goods sold as regularly computed under the system of accounting followed by the registrant."

When the Cost of Sales caption includes all the elements of cost no amplification of the caption is ordinarily needed. For example, Chrysler Corporation shows:

Cost of Sales \$318,898,896.55

Packard Motor Car Company's display is identical:

Cost of Sales \$17,315,064.67

The caption of Bethlehem Steel Corporation is descriptive:

Manufacturing cost and operating expense, including idle plant expense, inventory adjustments, provision for depreciation of certain classes of equipment and provision for renewals and maintenance as shown on page 22..... \$133,420,596.
(Note the omission of parts of a dollar.)

Exclusions from Cost of Goods Sold.—

As said, when items which are properly a part of cost are excluded from the display of cost of goods sold in order to show them separately lower in the statement, it is considered necessary to amplify the Cost of Goods Sold caption to explain the omission and thus make the caption an exact description of the amount. Sometimes such explanatory exceptions indicate the omission of the item from the company's costing methods; in other cases the desire is simply to express the item separately. One should be safe in assuming that, if the inventory is shown as being valued at cost, all the elements of cost are included therein.

The most common exclusion from Cost of Goods sold is depreciation. This exclusion is indicated by A. M. Byers Company:

Cost of Sales (Excluding depreciation) \$2,452,499.18

by Struthers Wells-Titusville Corporation:

COST OF GOODS SOLD (exclusive of depreciation)..... \$1,605,070.64

by Cannon Mills Company:

COST OF GOODS SOLD (exclusive of provision for depreciation) \$18,892,638.92

and by Mid-Continent Petroleum Corporation:

COST OF SALES (excluding depletion and depreciation).... \$19,383,384.00

The American Rolling Mill Company sets out separately other items in addition to depreciation and depletion:

COST OF GOODS SOLD (Exclusive of maintenance and repairs, depreciation and depletion, and taxes)..... \$39,960,456.81

Although no fault is found with any of the above displays (because each of them makes full disclosure apparently accurately captioned), it is generally considered much better practice to include in their accepted places the amounts which are excluded and shown separately in the above examples. This can be done—

(1) Parenthetically, as shown by many examples appearing later in this article; or

(2) In a footnote, as shown by Westinghouse Electric & Manufacturing Company:

"Note—Provision for plant and equipment depreciation for all companies for 1934 amounted to \$5,210,848.47

Or (3) by making separate lines of the amounts which it is desirable to show specifically. This method is followed by United Dyewood Corporation:

Cost of sales:
Exclusive of depreciation \$4,173,338.24
Depreciation 76,053.25 \$4,249,391.49

In the case of depreciation the use of a footnote is generally preferable because the depreciation is seldom entirely included in cost of manufacturing, some of it usually having been charged to "selling, administrative, and general expense" and some frequently into the cost of producing "other income."

Failure to Disclose Cost of Goods Sold.—Not all corporations which disclose sales volume reveal the cost of goods sold separately, preferring to combine it with selling, general, and administrative expense. The Fair-Chicago, for example, shows:

Cost of goods sold, selling, general and administrative expense \$17,382,804.77

Westinghouse Electric and Manufacturing Corporation calls such an item Cost of Sales but makes a broad presentation of the inclusions:

COST OF SALES:
Manufacturing cost and distribution, administration and general expenses—including taxes (except Federal income), service annuities, operating reserves, and depreciation of buildings and equipment \$93,426,327.99

Consolidated Laundries Corporation deducts from net sales:

Cost of Sales..... \$6,266,561.77

but a further examination of the statement indicates that selling, administrative, and general expenses must be included in this item (there being no other item which could conceivably contain them), and that depreciation is excluded from cost of sales (since it is set forth separately below).

The statement of The Yale & Towne Manufacturing Company shows the combination of costs with expenses and discloses important information in a footnote:

Net Sales \$ 9,894,281.54

*Cost of Sales—Factory cost,
selling, administrative, and general expenses 10,095,241.81

Net Loss before Miscellaneous
Income, etc. 200,960.27

*Including:

Depreciation 478,402.83
Maintenance and Repairs.... 522,412.99

Warren Brothers Company, which has revenue from both sales and road construction, shows:

Cost of sales, construction and
general administrative expenses,
etc., of operating units (except
as deducted below)..... \$3,769,494.77

The separate deductions are "depreciation of fixed assets" and "taxes (other than income taxes) except taxes paid by non-operating companies." Then, after adding "other credits," the statement shows:

Deduct:

General and administrative expenses, etc.,
of parent and non-operating companies
(except as deducted below) \$442,072.87

Taxes (other than income taxes) 32,583.23

Depreciation of fixed
assets 11,463.68 \$486,119.78

American Colortype Company deducts from Shipments:

Manufacturing Costs
and Selling and
Administrative Expenses \$5,229,331.64
Depreciation 169,077.80 \$5,398,409.44

Anaconda Copper Mining Company is specific:

Cost of Sales—operating expenses, development, maintenance and repairs, administrative, selling and general expenses and taxes except income taxes—sales to the extent of current production being applied at current cost \$82,053,027.58

Alpha Portland Cement Company deducts from net sales a group of accounts which include both cost of goods sold and selling, administrative, and general expenses:

OPERATING EXPENSES:

Depreciation and depletion..... \$1,452,904.38
Maintenance and repairs..... 405,126.18
Other 3,221,419.75

Total \$5,079,450.31

The combining of cost of sales with expenses of doing business, but with the exclusion of certain items, is illustrated in the report of General Electric Company:

Costs, expenses, and all charges
except depreciation and interest \$145,716,209.84

United States Rubber Company gives a similar treatment:

Cost of goods sold, selling, administrative and general expenses other than depreciation \$94,990,957.97

To the same effect is the showing of Simmons Company:

Cost of sales, including selling and administrative expenses, but before depreciation, maintenance, advertising and taxes.. \$22,262,703.62

The "condensed consolidated statement of profit and loss" of Oliver Farm Equipment Company begins:

NET SALES \$7,690,874.60

DEDUCT—COST OF SALES,
SELLING AND GENERAL
EXPENSES

(including provision for loss on doubtful notes and accounts receivable based on one per cent of net sales, but before provision for depreciation) 8,921,240.99

Net loss from operations
before depreciation \$1,230,366.39

The statement of The Borden Company is somewhat similar in form, but depreciation is (properly) included in costs, with the amount set out parenthetically. The statement begins:

NET SALES \$215,723,659.07

COST OF SALES AND EXPENSES:

(Including provision for depreciation in the amount of \$7,502,982.43, insurance, property taxes and all manufacturing, selling, delivery, administrative and general expenses, after deducting miscellaneous operating income) 210,742,194.81

NET OPERATING PROFIT.. \$ 4,981,464.26

Note that miscellaneous *operating* income is deducted from operating expenses above, but other income is shown separately on the next line after the above excerpt.

Again similar is the display of The Goodyear Tire & Rubber Company, but this statement includes Federal income taxes in the deduction from sales:

DEDUCT—Manufacturing cost and charges
(depreciation provided \$8,252,400), selling, administrative and general expense and provision for Federal income and other taxes..... \$130,408,350.51

The general principles which should be followed in determining what explanations of inclusions and exclusions are needed in a caption are:

1. Any item which in ordinary thought is an inclusion in the general caption but which is omitted in the specific case (as when depreciation of manufacturing facilities is omitted from cost of sales) should be specified.

2. Any item which in ordinary thought is not a part of the general caption but which is included in the specific case (as when the minority interest in consolidated earnings is included with some irrelevant item) should be specified.

3. Any item which is at all abnormal and which because of its amount is relatively material (as when a large appropriation is made to establish a pension fund) should be specified.

The report of The Eastern Rolling Mill Company follows these principles in its Cost caption:

Cost of Goods Sold, Including Freight, Selling Expenses, and Administrative and General Expenses, but before Provision for Depreciation and Adjustment of Inventory of Sheets to Market Value \$2,836,533.02

Tide Water Associated Oil Company

combines selling expenses, but not general and administrative expenses, with cost of sales:

Cost of products sold, including selling expenses \$68,640,117.35

Gross Profit.—Gross profit, in reference to an individual sale, is the difference between the selling price and the cost of the merchandise sold, excluding all incidental expenses of making the sale. In reference to the entire volume of sales over a period, the gross profit is the difference between the net sales as defined earlier herein and the cost of goods sold as determined under sound principles of accounting.

Gross profit is variously styled, as indicated in illustrations below. When sales and cost of sales are disclosed, the gross profit is the difference between the two and is ordinarily shown as the remainder in an obvious subtraction, as in the report of Falstaff Brewing Corporation:

NET SALES (after deducting Federal revenue and State inspection taxes) \$2,444,244.11
COST OF SALES..... 1,366,161.70

GROSS PROFIT \$1,078,082.41
Ratio to net sales..... 44.11%

When sales and cost of sales are not disclosed, gross profit is frequently the first item on the income statement, as in the report of Ainsworth Manufacturing Corporation:

GROSS PROFIT FROM SALES \$889,550.65

Bendix Aviation Corporation starts its "summary of consolidated income and surplus" with:

GROSS PROFIT FROM SALES AND ROYALTIES (before depreciation; special charge, tools, dies, and jigs; and development expenses) \$7,565,283.80

Blaw-Knox Company starts with:
GROSS PROFIT ON SALES.... \$1,546,145.61

but a further examination of the statement shows that depreciation has not been deducted in arriving at the amount shown.

The Cleveland Welding Company is specific:

Gross Profit on sales before depreciation \$216,249.26

So, too, is L. A. Young Spring & Wire Corporation, whose statement starts with:

Gross Profit on sales before providing for depreciation..... \$1,975,302.47

Belding Heminway Company uses the term "gross operating profit" as indicating the gross profit from sales, before deducting "selling, general, and administrative expenses."

Bethlehem Steel Corporation does not arrive at a gross profit, but deducts from net billings (reduced by the provision for doubtful notes and accounts receivable) a total of operating charges, which, as listed, include administrative, selling and general expense, to come to a net operating profit without the intervention of gross profit.

In comparison, note the beginning of the "condensed general profit and loss account" of United States Steel Corporation:

GROSS RECEIPTS — Gross Sales and Earnings (see page 5)	\$591,609,497.39	
Operating Charges:		
Manufacturing and Producing Cost and Operating Expenses, including inventory price adjustments, ordinary maintenance and repairs and provision of charges of \$44,121,258.91 by subsidiary companies for depletion, depreciation and obsolescence..	\$532,235,150.92	
Administrative, Selling and General Expenses, including appropriations under pension plan, but exclusive of general expenses of transportation companies included in item above ..	37,986,702.75	
Taxes (including reserve for Federal income taxes)	28,844,419.41	
Commercial Discounts	2,938,247.25	602,004,520.33
Deficit		\$ 10,395,022.94

To this deficit there are added "sundry net manufacturing and operating gains and

losses, etc." and "idle plant expenses." "Rentals and royalties received" are then deducted to obtain "total manufacturing, producing and operating net deficit after deducting charges for depletion, depreciation and obsolescence."

Selling, Administrative, and General Expense.—Ordinarily the only deduction from gross profit to obtain operating profit is selling, administrative, and general expense. The total of such expense is commonly shown as one amount, as in the "summary of consolidated income" of the United States Hoffman Machinery Corporation, which starts:

Gross profit on sales.....	\$1,216,265.84	
Selling, administrative and general expenses	1,044,979.62	
Profit from operations.....	\$ 171,286.22	
The display by The Pittston Company is only slightly different:		
Sales, net	\$34,323,799.47	
Cost of sales (exclusive of depreciation, etc., and amortizations)	28,345,524.71	
Gross profit	\$ 5,978,274.76	
Selling general and administrative expenses	\$4,467,574.16	
Provision for doubtful notes and accounts receivable..	368,625.49	\$4,836,199.65
		\$1,142,075.11

Canada Dry Ginger Ale, Incorporated, begins its "summary of consolidated net income" as follows:

Gross Profit Before Deducting Depreciation	\$5,277,070.19	
The amount remaining from sales income after deducting manufacturing and purchase costs exclusive of depreciation.		
Advertising, Selling, Distributing, and Administrative Expenses...	4,572,971.74	
The cost of marketing the products and administering the business of the companies.		

Profit from Operations Before Deducting Depreciation	\$ 704,098.45	
--	---------------	--

The "summary of consolidated income" of Gorham Manufacturing Company begins as follows:

Gross Profit from Sales, Before Depreciation	\$1,637,332.18	
Selling, Administrative and General Expenses	1,116,948.44	

Profit from Operations, Before Depreciation	\$ 520,383.74	
---	---------------	--

National Distillers Products Corporation exhibits a less common arrangement in adding "miscellaneous income and profits" to gross profit on sales before deducting "selling, distributing, administrative and general expenses." This may be on the theory that certain administrative and general expenses are relatively as applicable to the other income as to the sales income.

Houdaille-Hershey Corporation breaks this group into two amounts:

SELLING AND GENERAL EXPENSES:		
Selling and advertising	\$221,948.60	
Administrative and general	454,542.39	\$676,490.99

Other Deductions from Gross Profit.—While selling, general, and administrative expenses constitute the only customary deduction from gross profit in arriving at operating profit, other deductions are occasionally seen at that location. U. S. Industrial Alcohol Co. starts its "summary of consolidated net income" as follows:

GROSS PROFIT ON SALES...	\$3,493,195.58	
DEDUCT:		
Selling, general and administrative expenses	\$1,841,786.81	
Provision for renewals and replacements	900,000.00	2,741,786.81
NET OPERATING INCOME...		751,408.77

This company has in a prior year written its fixed assets down to \$1.00, and the \$900,000.00 provision shown above is described in the accountants' certificate as being "in lieu of normal depreciation."

Starting with Operating Profit.—As said, 33% of the statements under review start with operating profit. In such cases, since it is a usual practice to set forth the amount of depreciation (96% of the statements disclose it), this operating profit is often before depreciation. For example, the "income account" of E. I. du Pont de Nemours & Company begins:

Income from Operations before Provision for Depreciation and Obsolescence	\$43,796,411.03
Less—Provision for Depreciation and Obsolescence.....	13,505,789.07
Income from Operations.....	\$30,290,621.96

The first item in the "income account" of The Electric Auto-Lite Company is:

Profits from operations before deducting depreciation and interest charges	\$1,607,583.08
--	----------------

Pittsburgh Plate Glass Company starts with:

NET PROFIT FROM OPERATIONS (after deducting depreciation and depletion in the amount of \$3,490,873.14, and losses and expenses in connection with property removals, \$281,643.14)		\$6,273,754.88
---	--	----------------

Eastman Kodak Company starts its "consolidated statement of profit and loss and earned surplus" with:

Income from operations	\$22,668,649.74
------------------------	-----------------

but a further examination of the statement shows depreciation has not been deducted at that point.

The American Sugar Refining Company shows simply:

Operations, Gain	\$5,703,104.43
------------------	----------------

In this case also it is discovered that depreciation has not yet been taken into account. Such failures to present accurate captions are considered regrettable.

A similar situation is found in the report of Liggett & Myers Tobacco Co. of New Jersey, where the opening caption on the income statement,

Net Profit from operations for the year 1934.....	\$22,981,421.80
---	-----------------

is found to be before depreciation, with no indication of that fact in the caption quoted above.

Celluloid Corporation, however, makes clear the fact that depreciation has not been deducted in determining the operating profit. Its "profit and loss account" starts with:

Profit from Operations, before Depreciation	\$146,417.36
---	--------------

The Quaker Oats Company is equally meticulous. The "summary of consolidated income and surplus" starts:

Consolidated earnings from operations, before depreciation	\$6,988,689.59
--	----------------

Wilson & Co., Inc., however, begins with:

Gross Earnings	\$6,802,446.47
----------------	----------------

which is seen to be before depreciation. The term used seems to be synonymous with operating profit plus other income, and furnishes an example of the need for

the greater uniformity in the application of accounting terms.

Ingersoll-Rand Company starts with:

Profit from domestic operations, before charging depreciation but after including profits and losses of subsidiary companies operating in foreign countries (converted to United States dollars at rates of exchange prevailing at October 31, 1934) \$3,660,864.08

The first item on the statement of Briggs Manufacturing Company is:

Profit from sales, after deducting manufacturing cost of sales and selling, administrative and general expenses (exclusive of depreciation) \$7,511,281.03

The Westinghouse Air Brake Company starts its income statement with:

Net Loss from Operations (after manufacturing costs and all distribution, administration, and general expenses, but before depreciation, Federal income tax, and extraordinary charge shown below)... \$451,892.52

Carnation Company starts with:

Profit from operations, including dividends received from affiliated corporation \$1,958,549.99

American Beet Sugar Company displays:

NET OPERATING INCOME:

From sugar sales \$2,427,808.89
From other sources, including company farms, by-products, etc. 527,670.69

Net operating income before depreciation and federal income taxes \$2,955,479.58

Worthington Pump and Machinery Corporation is specific:

Loss from manufacturing and trading, after deducting all costs including operating, maintenance, depreciation of operating plants and equipment, selling, general and administrative expenses, less portion applicable to minority interest in subsidiary company.. \$1,174,016.90

So with the statement of The Babcock & Wilson Company, which starts:

Loss on Operations, after Selling, Administrative and General Expenses, but before Depreciation and Amortization of Patents \$505,104.05

Copperweld Steel Company begins with:
PROFIT FROM OPERATIONS
(after provision of \$73,580.40 for

depreciation on cost of property, but exclusive of depreciation on appreciation, which has been charged to surplus from appreciation) \$254,267.29

Starting below Operating Profit. A few statements (8%) combine items of other income and expense with the operating profit to furnish a starting figure even farther down in the statement. Harbison-Walker Refractories Co., for example, starts its "consolidated profit and loss and earned surplus account" with:

Operating Earnings and Other Income Before Deducting Depreciation, Depletion, Interest and after deducting Federal Income Taxes and proportion of net income of Subsidiary Company not wholly owned, accruing to minority interest therein \$1,947,905.44

The entire profit and loss section of the report of Aluminum Company of America is as follows:

EARNINGS, Year 1934, after deducting all Expenses incident to Operations \$12,058,955.41
GAIN FROM PURCHASE AND RETIREMENT OF PREFERRED STOCK 91,435.75
\$12,150,391.16
Less: Reserves for Depletion and Depreciation 5,684,242.35

NET INCOME \$ 6,466,148.81

This is followed by an analysis of surplus, the whole being captioned "Consolidated Income and Surplus Account."

The "summary of consolidated income" of General Motors Corporation shows sales volume as a memorandum item, but with that exception starts much farther down:

Net Sales \$843,807,849.34

Profit from operations and income from investments (including dividends received from subsidiary and affiliated companies not consolidated) after all expenses incident thereto, and after a special provision in 1934 of \$5,500,000 for contingencies, but before providing for depreciation of real estate, plants, and equipment \$138,295,588.64

National Bearing Metals Corporation starts its "summary of income and earned surplus" with:

Net Income Before Interest on First
Mortgage Bonds and Provision
for Federal Income Taxes \$468,170.12

Except that the statement is comparative for two years, the following constitutes the entire "consolidated statement of income" of Underwood Elliott Fisher Company:

Net results of operations for year after deducting manufacturing, selling and general expenses and all other charges, but before depreciation and federal income taxes; including net operating results of wholly-owned non-consolidated subsidiary companies \$3,463,571.08

Deduct:

Depreciation \$473,691.91
Provision for
federal income
tax 385,000.00

858,691.91

Net Income for Year \$2,604,879.17

Earnings per Share of Common
Stock outstanding \$ 3.62

The complete "summary of net income" of The United States Playing Card Company is:

Net income from the operations of the Company and its subsidiaries in the year 1934, before plant depreciation charges and Federal Income Taxes \$1,110,416.78
Plant depreciation charges 231,699.38

\$ 878,717.40

Federal Income Taxes 78,277.17

Net Income \$ 800,440.23

The "income account" of International Harvester Company starts with:

Profit before charging Interest on Loans, Depreciation, etc. \$20,856,619.11

and the "consolidated summary of profit and loss" of Brown Company with:

Profit before depreciation, depletion and interest \$311,735.52

Armour and Company speaks of the:

Result before Depreciation, Interest Charges, Contributions to Pension Fund and Provision for Federal Income Taxes \$24,615,650.64

From the number of examples of unconventional treatment cited just above, one might think that such treatment was

the rule rather than the exception. This is decidedly not the case. The large number of illustrations results from the fact that one cannot summarize the unique.

Summary of Percentages As to Display. Summarizing the above percentages as to display of various items, one obtains the following results:

Sales are shown on 50% of the statements. 17% start with gross profit and 33% with operating profit.

Of those statements which show sales, 47% separate cost of sales from selling, administrative and general expense, while 53% combine the two items.

The entire group of statements makes disclosures as follows:

Sales	50%
Cost of Sales	24%
Gross Profit	41%
Selling, administrative, and general expense	41%
Cost of sales combined with selling, administrative and general expense	27%
Operating profit	92%

Announcements

Staub, Fletcher and Van Tiffin, Certified Public Accountants, announce the removal of their offices to 3110 Book Tower, Detroit, Michigan.

Charles T. Sweeney, C.P.A., announces the opening of an office for the general practice of accounting at 605 Tecumseh Building, Springfield, Ohio.

Messrs. C. D. Milner and Walter Mucklow, C.P.A., announce that the accounting practices heretofore conducted separately as C. D. Milner & Company, Miami Beach, Florida, and Walter Mucklow, Jacksonville, Florida, will be combined as from October 1, 1935, under the firm name of Milner & Mucklow, Accountants and Auditors, 1663 Alton Road, Miami Beach, and 1423 Barnett National Bank Building, Jacksonville, where the firm will be represented by Mr. Henry Boyer.

Abraham Pfeffer and Jacob Feit, Certified Public Accountants, announce the formation of the firm of Pfeffer, Feit & Company, Certified Public Accountants, with offices at 11 West 42nd Street, New York City and 422 38th Street, Union City, New Jersey.

John Brighton Tanner

FOR the second time this year a former President of The American Society has been called upon to render his last accounting for deeds done on earth.

John B. Tanner was born at Chester, Ohio, October 31, 1880. He received a public school education, after which he followed his bent toward accounting procedure and secured a C. P. A. certificate from Ohio in 1910, with a second from the State of Wisconsin in 1913. Immediately on securing his certificate he began practice at Cleveland, Ohio, later having an office in Chicago as a member of the firm of Tanner, Gilman and Ellis, during the years 1917 to 1922.

He was actively interested in municipal accounting and under Tom L. Johnson's administration as Mayor of Cleveland, he designed a budget system for the city. Later he designed budget systems for the states of Wisconsin and Montana.

When the Chicago office of Tanner, Gilman and Ellis was established he became interested in the International Accountants Society, Inc., and was its president from 1917 to 1927, retaining membership on the board of directors from then until 1935. In 1927 the International Accountants Society became affiliated with the Alexander Hamilton Institute and Tanner became a member of its board of directors, which place he retained until his death.

Tanner had always been closely associated with the organizations representing his professional interests. He was a mem-

ber of the Ohio Society of Certified Public Accountants, the Illinois Society of Certified Public Accountants, and an honorary member of the Wisconsin Society of Certified Public Accountants, and had served as a member of the Wisconsin State Board of Accountants.



JOHN BRIGHTON TANNER

In masonry he was a member of the Blue Lodge, Council, Chapter, Apollo Commandery, Oriental Consistory, Medinah Temple and Red Cross of Constantine. He was a 32° K. T. Shriner. He belonged to various clubs, finding his greatest recreations in fishing and golf.

He died in Cincinnati, Ohio, on Monday, October 7, and was buried in Detroit, Michigan, Thursday, October 10, with an Episcopal service. George P. Ellis of Chicago, former President, and Thomas H. Evans, of Detroit, former Treasurer, represented The American Society at the services.

To the members of The American Society he was always known as "Jack." He was one of the original group that conferred together in the early days before any notices were issued looking toward the organization of such a society. In those preliminary days his interest and enthusiasm were always for the protection of the C.P.A. designation and he never lost his interest or his enthusiasm on that particular subject. He believed that the State-granted certificate was the highest honor that could come to any one practicing accountancy and that efforts expended

in any other direction were misguided and as a matter of fact were harmful to the profession, as he saw it. Like Homer Dunn, he declined any consideration of his name for the presidency of The American Society, although at a later date became president-for-a-day at the request of those who were most actively interested in the progress of The American Society, in order that he might thereby become a member of the Advisory Council.

When practical opinions were desired no one was able to furnish them with a greater degree of certainty that they were good and that they would stand the test of time than was Jack. It was rather strange that both Tanner and Dunn should have been taken to hospitals at the same time, in different cities, and although Tanner survived Dunn by a couple of months, their active interest in the profession which both loved, ceased during the same month.

In his departure the profession lost an earnest worker, The American Society lost a strong supporter, and many of us lost a warm-hearted friend.

JULIEN K. BYRNE, C.P.A. (Louisiana No. 32, Nov. 21, 1908), of New Orleans, Louisiana, died suddenly on the evening of September 4, 1935.

Mr. Byrne was founder and senior partner of the firm of J. K. Byrne & Co., Certified Public Accountants, and had long been active in civic and charitable affairs in New Orleans. He was a member of the Society of Louisiana Certified Public Accountants and of The American Society, having served as a member of the Committee on Natural Fiscal Year since 1932.

LEO GREENDLINGER, C.P.A. (New York No. 373, 1910), General Manager and Vice-President of Alexander Hamilton Institute, New York, died suddenly on October 11, 1935. He had attended the funeral of John B. Tanner in Detroit on Thursday, October 10, and boarded a train for New York that night. He was found dead in his berth next morning.

Mr. Greendlinger was born in Austria on August 22, 1879. He received his education at the Royal Seminarium in Austria and also studied law for two years before coming to the United States in 1900.

He received his B.C.S. from New York University in 1907 and his M.C.S. in 1908.

He was the first editor of the C.P.A. Question Department of the Journal of Accountancy, from 1907 to 1911. He was author of *Accounting Problems with Solutions*; *Graded Accounting Problems*, in co-authorship with W. H. Dennis; *Accounting Principles and Practice*; *Financial and Business Statements*; and numerous magazine articles.

He was assistant professor of accounting at New York University from 1907 to 1915, during which time he also conducted an accounting practice, and was special lecturer on accounting at Case School of Applied Science, in 1915-16, and at the University of Wisconsin in 1916-1917. He had been associated with the Alexander Hamilton Institute since 1912 as director, treasurer and secretary, later becoming general manager and vice-president.

He was a member of the New York State Society of Certified Public Accountants, the American Institute of Accountants and had been a member of The American Society since 1922. For a number of years he served as State Representative from New York and as a valued member of the Committee on Education.

State Board News

GEORGIA

Announcement is made of the appointment of L. D. Baggs of Macon and W. Gordon Mann of Dalton as members of the State Board of Accountancy to succeed H. M. Heckman and W. H. Key, whose terms have expired.

NORTH CAROLINA

George E. Perrin of Greensboro has been appointed to the North Carolina State Board of Accountancy to succeed Walter Charnley, whose term had expired.

WEST VIRGINIA

S. Charles Steele of Morgantown and Carl F. Bauman of Charleston have been appointed members of the West Virginia Board of Certified Public Accountants to succeed David A. Jayne and Jesse L. Cramer, whose terms had expired.

The Social Security Act

by GEORGE PRICE ELLIS, C.P.A., Chicago, Ill.

THE best thing that can be said about the new Social Security Act is that it is not final. It is law, but it can, and indeed must, be amended before it becomes operative in 1936. For, in spite of the political ballyhoo which attended its passage, the bill is not even a good beginning toward a sound social security program. There is only one thing to recommend the Act as it stands. The danger that such poorly conceived legislation will become operative should force every right thinking person to take thought upon the principles involved and upon the means to fair accomplishment; and, when he has taken thought, to act in keeping with his reasoned judgment upon it. In other words, the danger must focus public attention and compel some careful weighing of principle and of practicability.

The Social Security Act, it will be recalled, provides principally:

(1) A compulsory nation-wide system of old-age insurance intended to provide pensions after 1942 for all workers in industry who reach the age of 65. All employers and all employees (with certain exceptions) are included and will be taxed to maintain the system.

(2) It establishes the basis for a nation-wide system of unemployment insurance, but with each State free to determine the form of that insurance. All employers of 8 or more persons are to be taxed to maintain this system. When pensions would start and their size and form is a matter for decision by State legislature.

(3) It provides a federal subsidy for indigent aged who now are 65 years of age or older.

(4) It provides a federal subsidy for State systems designed to care for children in families of indigent persons.

To finance this program, two new federal taxes are provided: (1) An "excise tax" levied on payrolls, payable on and after January 1, 1936, by every employer (with some exceptions) who regularly employs 8 or more persons; (2) a tax effective January 1, 1937, imposed upon all employers coming within the scope of the

act. No limitation is placed on the number of employees subject to taxation. An employer of only one person must pay. An equal and similar tax, called an "income tax on employees," is to be levied upon those employed by the employers subject to taxation. It is collected by the employer. Both these taxes go to the creation of huge reserves from which old-age annuities will be paid to those employees on whose account taxes have been paid.

THE TAX PROGRAM

The tax program may be summarized as follows:

Social Security Act Direct Taxation Taxes in Per Cent of Payroll

Years	Taxes Upon Employers for Unemployment Benefit Purposes	Taxes for Old Age Annuities Upon Employers	Taxes for Old Age Annuities Upon Employees	Total Taxes
1936	1%			1%
1937	2	1%	1%	4
1938	3	1	1	5
1939	3	1	1	5
1940-1-2	3	1½	1½	6
1943-4-5	3	2	2	7
1946-7-8	3	2½	2½	8
1949 et seq.	3	3	3	9

The "wages" comprising the tax base is defined as "all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash." In other words, there is no distinction between executives and factory labor, between salesmen on commission and clerical staff. The taxes for old age annuities, however, are levied only on the first \$3,000 of annual remuneration of the individual employee.

CONSTITUTIONAL?

A number of very serious criticisms can be brought against this program. There is first, the question of constitutionality. Even though a State system was adopted rather than a federal one in order better to meet the challenge, there is still doubt that federal legislation of this type under the taxing power will stand up under attack in the courts.

The system is clumsy in that it cannot become operative without State action.

Only seven states, Wisconsin, New York, New Hampshire, Utah, California, Washington and Massachusetts already have such laws that they can comply with the unemployment provisions. Thirty others are reported to be preparing the necessary legislation. Some states, Illinois for example, must amend their constitutions before they can join the procession. In this connection it is significant that without an approved State statute employers must still pay the levy, although no part of the money so collected will come back to the State as benefits of the kind payable under the act. Lack of uniformity among the State acts will constitute a problem in this as in other forms of legislation; on the other hand, correction of manifest weaknesses in the federal statute will be hampered by this tie-up with a variety of State laws.

A second all-important weakness is that the law will not benefit a very large segment of workers. It is estimated that by stated exemptions in the act, about 23,000,000 out of 48,000,000 persons gainfully employed are eliminated both from taxation and from the benefits of the act. The exempted classes of employment are: (1) Agricultural labor, approximately 10,000,000 persons; (2) domestic service in private homes affecting some 2,000,000 persons; (3) services performed by officers and crews of vessels on the navigable waters of the United States; (4) service performed in certain family relationships; (5) governmental employments, federal, State and local, estimated at 3,000,000 persons on public payrolls, although this figure is constantly increasing; (6) services performed for certain classes of charitable, religious, and educational organizations.

In addition, by implication, persons self-employed, having no one working for them, are exempted from both taxes. Likewise, owners and proprietors. Casual labor is automatically excluded from old age annuity levies, and taxes for unemployment benefit purposes are not levied upon an employer "unless on each of some 20 days during the tax year, each day in a different calendar week, the total number of individuals who were in his employ for some portion of the day . . . was eight or more."

Furthermore, the unemployment benefit plan, being a species of insurance on an actuarial basis, necessarily excludes all those out of employment. The estimates upon the extent of unemployment vary with the source. The National Industrial Conference Board has the lowest estimate of 10,015,000 in July, 1935, but their figure excludes all those engaged upon work-relief projects. The A. F. of L. figure is 11,000,000, and the left-wing National Research League figure is 14,210,000. Furthermore, a study of the estimates for a period of years emphasizes two things: that employment dipped sharply in the first 6 months of N.R.A., and that the trend has been steadily downward. The increasing number of unemployed is only partly accounted for, according to the conservative National Industrial Conference Board, by technological improvements. It is more directly traceable to the increase in output per man-hour worked. This increase has been accomplished by a sifting of the labor force, retaining the most competent, and by better administrative control. Unless and until this huge mass of unemployed can be reabsorbed by industry, and so made eligible for the benefits of the Social Security Act, social security is a farce.

Perhaps the most serious charge of all is that made by Mauritz A. Hallgren in September *Current History*, that the new law is "a scheme under which the workers will insure themselves at the expense of their own living standards." The basis for this statement is that the workers' tax for old age annuities is not deductible to the taxpayer in computing his net income in the year in which such tax is deducted from his wages. But the same tax paid by the employers becomes part of the cost of doing business, recoverable in higher prices—prices which will be paid by the worker as a consumer, and in lower wages. So that the full burden of old age annuities rests ultimately upon the worker, whose average income is already too low to afford security.

The Chamber of Commerce of the United States finds cause for alarm in the billion-dollar-a-year tax burden the program entails, and in the accumulation of a vast reserve or pool of over 30 billions, politically controlled. It points out that

none of the countries of Europe which has developed social insurance plans has built reserves of any such relative magnitude, and to do so in this country the chamber believes will be disastrous to the economic structure of the country and defeat the very security that is sought.

There are other ways in which this hasty legislation falls short in theory and in practical wisdom. For the sake of political expediency, the advice of business leaders, of social workers and of scholars was ignored, and the experience of Europe disregarded. The present crude bill must not be allowed to go into operation unrevised. And in taking a stand on revision, some of the fundamental issues which must be

answered by each man for himself are:

(1) Shall the basis be actuarial or social?

(2) Should the cost of such protection be assumed by individuals directly, by industry, or by society as a whole through the taxing power of the Federal Government?

(3) Should protection against unemployment and old age be extended to all persons, or merely to those whose personal resources for one reason or another have become exhausted?

(4) Should the agency which administers security measures be industry, State or Federal Government, or the workers themselves?

Wee Bits on Accountancy

REGULARLY CONTRIBUTED BY LOUIS S. GOLDBERG, C.P.A., Sioux City, Iowa

On Understanding Technique

An old schoolmate of mine is devoting his life to Art. Recently he returned to New York from a five-year sojourn in Europe, where he had been studying and working at his pictures. He has sent me one of his recent paintings; it hangs in my study. My friends, those of them who know, say it is a brilliant production. Unhappily, to me, it is but a crude mess of color; I have not learned to understand artistic technique.

They say the like of music, that a knowledge of the technique of music is a great aid in appreciation of musical masterpieces.

At Harvard University, in its Graduate School of Business, there is a special course devoted to teaching contacts with the lawyer, how to deal with the legal profession. Enough law is taught to give a comprehension of the legal technique, to the end that a business executive may recognize legal values, develop an awareness of legal problems, to sense their approach before they overwhelm him.

At the Columbia University School of Law, since 1929, a course in the Principles

of Accountancy has been an integral required part of the regular legal curriculum. The aim is not to equip the lawyer to solve accounting problems, but rather to give him an understanding of accounting technique, to make him accountancy-conscious.

Others, meaning particularly the business executive, may profit by these examples. There is need that business acquire a better understanding of accounting technique, to the end that business men may the better know when to use accounting services and how to attain the maximum advantages from those services after they are rendered.

To illustrate: the business man should know what an audit is and what it is not; the different types of audits; how to assist in the preparation of a budget and how to use it when prepared; the significance of internal check; the use and abuse of reserves; how to read a balance sheet and a profit and loss statement in conjunction with their supporting exhibits. In brief, he should acquaint himself with accounting technique.

Conference of State Board Members

IN connection with the Kansas City meeting representatives from eleven State Boards of Examiners were present and held two sessions on Monday, September 30, and one session on Wednesday, October 2.

Miller Bailey, of the Missouri Board, acted as chairman of the meeting.

The major subject under discussion related to the report of a committee appointed last year on the organization of a national association of accountancy examiners. E. E. Leffler, of the New York Board, was chairman of the committee thus appointed and submitted a provisional constitution which was unanimously adopted.

During the discussion it was brought out that the principal reasons for such an organization were to promote harmony between State Boards and to overcome irksome and unnecessary restrictions on interstate practice as well as to collect and disseminate useful information.

As a matter of historical importance it was reported that in 1908 the New Jersey Board of C.P.A. Examiners invited the other State Boards to a conference which was held at Atlantic City. Representatives from nine State Boards of the fourteen then in existence were present. Considerable discussion was had as to whether a formal organization should be effected or whether an informal get-together annually would be preferable. The majority of those present favored the formal organization but some were quite insistent that there had not been a sufficient development of Board consciousness to warrant such an organization. The movement was short lived. It lacked a head and at that time it was not felt to be of great importance.

During the course of the discussion it was reported that the bar and medical association had found it necessary to divorce the legal control of their professions from the professional control and activities and that this organization might ultimately be utilized for that purpose. It was emphasized, however, that the immediate function of the organization as proposed would in all probability be limited to the purposes set out in Article II.

Another subject which was carefully discussed was as to whether members of the Board of Accountancy should initiate or support legislation relative to the practice of accountancy. The view was freely expressed that Board members are in the best position to know and understand the weaknesses in the statutes and, therefore, they should make recommendations and, in fact, initiate legislation but they should act through State societies rather than as individuals or in their official capacities.

Considerable time was spent in exchanging experiences with regard to the procedure for handling complaints against C.P.A.'s as well as public accountants who might be registered and those of neither class who might be violating the law of any particular State.

Another subject which occupied considerable time related to whether straight reciprocal agreements between states were better for the profession than provisions under which recognition could be made by any Board of a certificate issued by another State. Members present felt that influence of the profession can better be exerted in connection with Federal matters through the professional societies rather than through Boards of Accountancy.

Other subjects discussed related to the scope of examinations, the relative value of oral and written examinations and how far Boards should discourage applicants who really demonstrate unfitness for the practice of accountancy as the result of the investigations which the Board should make with reference to every applicant who desires to take an examination.

Constitution and By-Laws of the Association of C.P.A. Examiners

PREAMBLE

WHEREAS, it is desirable that State Boards of C.P.A. examiners cooperate among themselves and with professional associations and coordinate their activities, in so far as the respective statutes permit, we do hereby adopt the following Constitution and By-Laws:

CONSTITUTION

Article I.

The name of this organization shall be Association of C.P.A. Examiners.

Article II.

The objects of this Association shall be to collect and disseminate information concerning examinations, standards, legislation or other data of interest, between the Boards of Examiners of States, other political sub-divisions, and the possessions of the United States of America.

Article III.

Membership in this Association shall be confined to Boards of Certified Public Accountants Examiners, each Board to have one membership in its name.

Article IV.

The officers of the Association shall be a Chairman, a Vice-Chairman and a Secretary-Treasurer. Their duties as officers of the Association shall be those customary to or in respect of their several offices.

Until their successors are elected, Mr. E. E. Leffler of New York State shall be named as Chairman, Mr. Claude F. Harmon of Arizona shall be named Vice-Chairman, and Mr. Robert Miller of Kentucky shall be named Secretary of this Association.

BY-LAWS

1. Fiscal Year

The fiscal year of the Association shall end with the last day of October in each calendar year.

2. Committees

Standing Committees shall be appointed by the Chairman and their functions and duties shall be as follows:

Committee on Annual Meeting: This committee shall be composed of the Chairman and the Secretary-Treasurer of the Association and a member of the Board from the State chosen for the annual meeting. This committee's duty shall be to arrange and supervise the details with reference to the annual meeting.

Committee on Constitution and By-Laws: This committee shall be composed of three members.

Committee on Program: This committee shall be composed of three (3) members whose duty it shall be to prepare a program for the annual meeting.

Report of the Committee Co-operating With Credit Groups

In keeping with the fundamental idea of this Society to work for and through the various State Societies, an attempt was made, in the fall of 1934 to obtain from them the names of their committees co-operating with the bankers. It was intended that as far as possible these same individuals would be made members of the committee of The American Society co-operating with credit groups, the obvious purpose being to develop a closely knit, harmonious and efficient committee.

In former years some criticism had been directed against the accounting profession by bankers, due to the fact that in some localities as many as three separate committees were contacting the bankers. One committee represented The American Society, a second one represented the State Society, and a third one represented the American Institute. In some cases this situation created so much confusion that, the bankers, wishing to be entirely impartial, did not recognize any of these committees.

Regardless of the rather discouraging results obtained during the year just closed, it is believed that a further attempt should be made to coordinate the efforts of these various committees cooperating with the bankers. One method which should produce results would be to have the chairman of this committee appointed not later than September first, of each year, so that he would have time enough to make his appointments from the standing State committees, and be ready to function by November first. The opportunity for constructive work on the part of this committee exists principally between November 1st and April 30th.

Your Chairman attended the mid-year meeting of the Robert Morris Associates, October 27th to 30th, 1934. Philip F. Gray, R. M. A. chairman cooperating with the accountants, as usual made a very able presentation of the bankers' problem of analyzing certified statements for credit purposes.

At this meeting an attempt was made to

recommend a uniform certificate which all Certified Public Accountants should be requested to adopt as a standard. This was not found practical, with the result that the subject was referred to a committee with instructions to either change the form, or to arrange for its limited use to those reports so qualified that its use would be appropriate.

In an address before the New York Society of Certified Public Accountants recently, George H. Williams of H. A. Caesar & Co., stressed the important position occupied by the Certified Public Accountant in the field of credit granting, and urged that part of the arrangements with his client should be the privilege of speaking frankly and openly to creditors about the account he certifies to. Speaking before the same body, Joseph Rubanow of the Manufacturers' Trust Company, and First Vice-President of the New York Credit Men's Association, averred that such cooperation must exist if the accountant expected the credit grantor to place any confidence in the figures submitted. Recently a noble attempt was made along this line by the National Credit Office, but due to the confidential position which the certified public accountant occupies with his client, it was impossible for the profession to cooperate with N. C. O. The speakers referred to above took the position that the credit grantor should enjoy the unrestricted confidence of his customer. It is believed that clients should more universally issue such instructions to their certified public accountants. This would gradually accomplish the desired point to the satisfaction of the credit grantors. It therefore becomes the duty of the certified public accountant to suggest to his client that such a relationship should exist, and obtain permission to act accordingly.

Your Chairman has had several discussions with Alexander Wall, Secretary of Robert Morris Associates, on the subject of a proposed financial questionnaire for the Automobile Sales Finance companies. Lending bank funds to this type of business requires a special study which cannot readily be made from the usual statements. The National Association of Finance Companies is cooperating in this splendid work and it is expected that some new material

on this subject will soon be available.

L. G. Battelle, a member of our committee, did some splendid work when he arranged that the Dayton Chapter of the Ohio Society of Certified Public Accountants should entertain the Dayton Bankers, April 24, 1935. The question-and-answer plan (originated by Alexander Wall at Briar Cliff in 1928) was used with splendid results. A copy of these questions and answers was printed in a recent issue of *THE CERTIFIED PUBLIC ACCOUNTANT*. Many favorable comments were received. This plan has been found so genuinely effective in building a better understanding between bankers and accountants that we urge its adoption by every State society or chapter.

Bankers throughout the country are giving us splendid encouragement in our campaign for certified statements in support of commercial bank loans in the smaller amounts.

Some time ago the Norfolk National Bank of Commerce and Trusts ran a series of four ads in the *Virginian Pilot*.

The basic statement used in each of the ads was, "A bank is not kept sound by accident, habit, or Act of Congress. 'Commerce' owes its liquidity and strength to its policies, tested and proven, which are presented frankly in this series of advertisements."

Each of the ads referred to different items which should contain also the financial statements desired by the bank in making loans. The last ad, labeled, A "Close-up" Picture of the Business, which contained one of the best summarizations which we have ever seen, was quoted in *THE CERTIFIED PUBLIC ACCOUNTANT*, June, 1935, p. 378.

Another splendid example of how the banker is doing his utmost to eliminate the qualifications from audit reports which are submitted in connection with credit applications is reflected in the views expressed by Gilmer Winston, Chairman Union Planters' National Bank & Trust Company, Memphis, Tenn., and reprinted from the *North Pacific Banker* in *THE CERTIFIED PUBLIC ACCOUNTANT*, June, 1935, p. 378.

A recent issue of one of the leading banking magazines carried an article ad-

vising that one of the junior officers of a bank could build a great amount of goodwill by preparing income tax returns for the bank's customers free of charge. It was suggested that in a few weeks' time he could prepare himself to give such assistance, except possibly in the more complicated cases. It was felt that the article possessed such serious possibility in the advice thus given that the following protest was registered:

Gentlemen:

The attached copy of an article appearing in the February issue of *Banking* has been forwarded to the writer who is Chairman of our committee cooperating with bankers. So many protests have been registered by our membership, that we feel it is only fair to your publication that they should be called to your attention.

It is felt that we truly express the views of our membership when we say we fully understand that the motive back of this article was to be helpful to the banks, their customers and the Treasury Department. Furthermore, we are sure you will not construe these protests as being registered purely in the self-interest of our profession. However, it does seem to be the consensus of opinion of our members that you have treated the matter very lightly when you say that any junior officer can in a few weeks' time, become proficient enough to deal with all but a few questions which customers might ask. Who shall say what these few questions are, on which he is not qualified?

We also take issue with the views expressed in the sixth paragraph of this article. Experience seems to indicate that the professional attorney and the certified public accountant do not "lean too far in favor of their clients." Does it seem reasonable that the junior bank officer with only a few weeks' training would be as cognizant of the pitfalls attending a too liberal interpretation of the Income Tax Laws and the thousands of decisions as would a member of the Bar or a certified public accountant who has spent a lifetime in preparing himself to serve the public in this very specialized capacity?

In an extreme desire to serve their customers, the bankers made the mistake of

encroaching upon the meager income of the notary public, with the results that in some states the final result was embarrassing.

During the past few years there has been a very healthy sign that banks have decided they can be most helpful to their community when they confine their efforts to what is commonly known as a strictly banking service. This view has also added to their own profit through the elimination of salaries and many minor expense items, including the investment in a complete Income Tax reference library.

The accounting profession has also been confronted with the problem of confining its efforts to that field which it is best qualified to serve, but we do believe that common practice has demonstrated the fact that the giving of advice and assistance in the preparation of Income tax reports should be confined to the accounting and legal profession. We are sure that both of these professions would register a very kindly feeling towards your publication and to bankers in general if you were to support that view in your future issues.

Very truly yours,

O. V. WALLIN,

Chairman, Committee Cooperating
With Credit Groups.

We immediately received a most gracious reply, thanking us for calling the matter to their attention, and in their next issue the above letter was quoted in full. Such cooperation on the part of a leading banking magazine is greatly appreciated by the accounting profession.

Respectfully submitted,

O. V. WALLIN, Chairman.

Report of the Committee on Complaints

The committee is pleased to report that for the past year there have been no new complaints against members of the Society brought to its attention.

The committee was informed that there was one case pending at the time it was appointed, wherein one of our members had been complained against, and the case was at that time, and had been for a considerable period of time, in the hands of the Board of Directors for consideration.

Advance notice was given the member, evidence was submitted, and a hearing was had before the Board of Directors of The American Society on the afternoon of April 29, 1935, at Washington, D. C., which hearing resulted in the expulsion of the member.

At the annual meeting of the Society held at Atlantic City during the month of October last year a committee was appointed to formulate a resolution to aid in the administration of By-Law 12, which relates to Suspension or Expulsion. The said By-Law did not set out the method of giving notice, time to reply, and many other items of detail necessary to be followed to bring the complaint to issue prior to a hearing before the Board of Directors. A resolution was presented by the committee appointed, and the same was adopted by the Board of Directors. It is believed that the procedure as set out in the said resolution would have greatly aided this committee had any complaints been filed with it, and it is mentioned at this time so that future Committees on Complaints may have knowledge that a form of procedure was adopted in connection with suspensions or expulsions of members of this Society.

Respectfully submitted for the Committee,
WM. D. MORRISON,
Chairman.

Report of Committee on Federal Legislation

A recurring difficulty which confronts committee members of a national organization is due to the geographical expanse of the country. On several occasions during the year, the Chairman of the Committee on Federal Legislation was confronted with the necessity of deciding whether or not to attempt to convene in Washington the members of his Committee. In each instance, as the result of helpful advice from Secretary Springer, the decision was to spare the members the inconvenience and expense which a Washington conference would necessarily entail. During the year your Committee had occasion to confer with the Treasury Department, with the House Judiciary Committee which had

charge of the so-called Lobby Bill (S. 2512), with the Senate Judiciary Committee which had charge of the Federal Practice Bill (S. 2944), with the House Ways and Means Committee and with the Senate Finance Committee with respect to the Revenue Act of 1935. In each and every instance, actual Washington contact with the committee was through our Secretary. In no instance was it necessary either for the Chairman of the Committee on Federal Legislation or for any of its members to go to Washington, although the need for such going appeared imminent several times.

When Senate Bill No. 2944 was introduced, the Secretary at once transmitted the bill to your Chairman, and very shortly thereafter a conference was arranged with a number of public-spirited accountants located in New York City; Secretary Springer was in attendance, and the New York State Society of Certified Public Accountants actively cooperated. Plans for a campaign were developed; notices were sent to accountants throughout the United States located at strategic points, not only for the purpose of informing them of the pending legislation, but also to secure their advice and their promise of active assistance should the need therefor arise. The prompt, cordial and helpful response was very heartening. However, so effective was the work of the Secretary in cooperation with other organizations, including the American Bar Association, that it was unnecessary for any member of The American Society of Certified Public Accountants to do anything else other than to be in readiness to respond to a "call to arms," which call, happily, never became necessary. In the June, 1935, issue of the *C. P. A. News* is found a report on this legislation.

The bill dealing with lobbying (S. 2512) was found objectionable to certified public accountants principally because of the connotation of the word "influence" which appeared in the proposed statute. The committee, again with the Secretary in the forefront of the battle, actively cooperated with other interested organizations, including the American Bar Association, and this legislation, too, failed of enactment. In the August, 1935, issue of *THE CERTIFIED*

PUBLIC ACCOUNTANT appear the Secretary's remarks before the House Judiciary Committee.

Shortly after President Roosevelt's unexpected June 19th message to the Congress advocating the immediate revision of the Revenue Law, your Chairman and the Secretary of the Society canvassed the situation. Because it was realized that tax legislation so late in the session was unmistakably political, the decision was reached merely to watch developments and to refrain from active participation. The Secretary met, informally, members of both the House Ways and Means Committee and the Senate Finance Committee, and to these gentlemen he made clear the attitude of the Society, which was, in substance, that revenue law tinkering was fundamentally objectionable and that any attempt to enact revenue legislation in the absence of an official budget was unscientific and quite without precedent. The one specific point about which the Secretary did argue was that if the capital stock-excess profits tax were to be changed, it would be unconscionable not to permit a re-declaration for capital stock tax purposes. Incidentally, this was the point also stressed in a brief prepared by the Committee on Federal Legislation of the New York State Society of Certified Public Accountants. In the opinion of your Chairman, the New York State Society of Certified Public Accountants, through its Committee on Federal Legislation, and The American Society of Certified Public Accountants, through its Secretary, undoubtedly greatly influenced the Senate Finance Committee, with the result that corporations are now privileged to make a new capital stock value declaration.

The experience of your Committee during the past year abundantly demonstrated that the interests of the certified public accountant are inadequately served because of the existence of two national groups. Everyone of us who has had occasion to approach the Legislature or an administrative branch of the Government with respect to matters of interest to the profession, must have been impressed with the anomalous situation created by the existence of two national bodies to serve a single inter-

est. It is not too much to hope that when next a report is presented to the practicing accountant with respect to national legislation, it will be on behalf of a single national body of practicing accountants.

Respectfully submitted,
JOSEPH J. KLEIN, Chairman.

State Society News

CALIFORNIA

A meeting of the San Francisco Chapter was held at the Engineers Club on September 25, 1935.

President Harry B. Mills reported on the Conference of State Society Presidents held at Atlantic City on August 23-24. After a lengthy discussion a resolution was passed approving the principle of one national organization.

Candidates who had passed the May examination for their C.P.A. certificates were special guests at the meeting.

The Los Angeles Chapter held its first meeting of the fall season on Tuesday evening, September 10, at the Los Angeles Athletic Club.

Walter K. Mitchell discussed the California State Income Tax. Mr. Clayton L. Howland, Administrator of the State Board of Equalization, had for his subject "Other New California Taxes." He discussed some of the provisions of the new California sales tax and some changes in the new consumers tax. Melvin D. Wilson made some observations on Federal tax changes.

Harry B. Mills, president of the State Society, made a report of happenings at the Atlantic City Conference. After discussion the Los Angeles Chapter voted unanimously to give the movement toward one national organization its fullest support.

COLORADO

At the annual meeting of the Colorado Society of Certified Public Accountants, held on September 13, 1935, the following

officers were elected to serve for the coming year: President, Wm. B. Paul; Vice-President, E. H. Alsfasser; Secretary-Treasurer, Stanley V. Davies; Assistant Secretary-Treasurer, Thomas E. Stanley; Directors: Clem W. Collins, Ralph B. Mayo, Harry W. Nelson and Turner S. Underwood.

DISTRICT OF COLUMBIA

A meeting of the District of Columbia Institute of Certified Public Accountants was held on the evening of October 10, 1935.

Reports of the Atlantic City Conference were made by President Harold C. Anderson and by D. W. Springer. A resolution was unanimously passed approving action taken at that meeting.

The subject of the meeting was "The Education and Training of the Certified Public Accountant." Dr. Clarence S. Marsh, associate director of the American Council on Education, opened the discussion with a stimulating talk on the subject of professional training. The following representatives of local accountancy schools and colleges having courses in accountancy were present and gave their views on the subject: Prof. J. T. Kennedy, President Benjamin Franklin University; Dr. J. A. Bell, President Southeastern University; Dean E. G. Purvis, Strayer College of Accountancy; Dean J. D. Cushman, Columbus University; Dr. W. M. Deviny, Associate Professor of Economics, Catholic University of America; Prof. J. E. Gillis, George Washington University; Prof. W. G. Buchanan, Georgetown University; and Dean J. K. Moyer, Southeastern University.

The District Institute is the latest to join the ranks of those societies issuing periodical bulletins. Members will undoubtedly welcome these reports of activities and matters of particular interest to accountants.

GEORGIA

The October Bulletin of the Georgia Society of Certified Public Accountants contained a report of the Kansas City meeting of The American Society and of the action there taken regarding the proposed merger of the two national accounting organizations.

MINNESOTA

The Minnesota Society of Certified Public Accountants held an interesting dinner meeting at the Radisson Hotel, Minneapolis, on the evening of October 7, 1935.

Guest speakers were Herbert Heaton, Professor of History at the University of Minnesota, whose subject was "Background of the Social Security Act"; and Thomas E. Shearer, of New York City, Editor-in-Chief of Prentice-Hall Social Security Act Service, who spoke on "The Social Security Act—What It Will Mean to Employers."

Special invitations were extended to members of the Robert Morris Associates and the Bar Associations. One hundred and thirty-six members and guests attended the dinner meeting and about three hundred were present to hear the speakers.

NEW JERSEY

Some two hundred members and guests attended the first meeting of the year of the New Jersey Society of Certified Public Accountants at the Downtown Club, Newark, on the evening of October 8, 1935.

Committee chairmen reported on proposed activities for the coming year. Dr. James F. Hughes reported on the proceedings of the annual meeting of The American Society, particularly as related to the proposed merger of the two national societies. James J. Hastings reported regarding meetings of committees of the two national organizations.

Dr. Hughes, Chairman of the New Jersey State Board of Public Accountants, addressed those who had successfully passed the May C.P.A. examinations and who had been invited to be guests of the society at the dinner meeting. George Kingsley, Secretary of the Board, presented them with their commissions to practice as Certified Public Accountants.

A resolution was unanimously passed expressing appreciation of the services of Philip S. Suffern, retiring president.

Walter A. M. Cooper then addressed the meeting on "Changes in Procedure Under the Revenue Act Amendments of 1935," and "The Social Security Act."

A panel of four members presented and offered solutions to the various questions on income tax law and practice which had been submitted by the members.

PHILIPPINE ISLANDS

At a recent meeting of the Philippine Institute of Certified Public Accountants the following officers and directors were elected: President, Jaime Hernandez; Vice-President, Nicanor Reyes; Secretary-Treasurer, Francisco Santiago; Directors: W. W. Larkin, Francisco Dalupan, Vicente Fabella, Ramon Gandionco, Rufino Melo, Juan D. Quintos, Irineo Reyes and Tirso Garcia.

VIRGINIA

Under date of October 7, 1935, a bulletin entitled Presidential Paragraphs was sent to members of the Virginia Society of Public Accountants by the newly elected president, A. N. Hilton of Norfolk. It carried items of interest concern-

ing the recent Hot Springs meeting of the society, plans and hopes for future activities, and a copy of a resolution unanimously adopted by the Virginia Society approving the principle of a single national accountancy organization.

WEST VIRGINIA

The annual meeting of the West Virginia Society was held in Wheeling, October 25, 1935, at which time the following officers and directors were elected: President, H. S. Hutzell, of Wheeling; First Vice-President, Louis F. Tanner of Morgantown; Second Vice-President, J. E. Beatty of Huntington; Secretary, Harry R. Howell of Charleston; Treasurer, Norman S. Fitzhugh of Charleston; Directors, Jesse L. Cramer of Parkersburg, S. Charles Steele of Morgantown and J. L. Jennings of Bluefield.

James M. Cumming, President of the Pennsylvania Institute of Certified Public Accountants, and Paul W. Pinkerton, both of Pittsburgh, were guests at the meeting.

IS IT IN *Your Library?*

● A copy of *Bibliography of Works on Accounting by American Authors*, Vol. II, should be in every accountant's library. It covers the period from January 1, 1901, to January 1, 1935. (408 pages.) / It enables you to find out readily what has been written on Auditing, Cost Accounting, and Systems for the various kinds of businesses. You cannot afford to be without it. / Would you like to have a copy sent to you on approval? **Price \$4.50 postage prepaid.** If you see it you will want it. / Vol. I covers the 19th century. **Price \$3.50.** / The two volumes for **\$7.50.** / It required four years to compile these two volumes. The authors — H. C. Bentley, C. P. A., and Ruth S. Leonard, S. B.

Address your order to **H. C. BENTLEY**, 921 *Boylston Street*
BOSTON, MASSACHUSETTS

THE *A*ERICAN RED CROSS

CERTIFIED public accountants in New York have formed a unit of the Roll Call organization to raise funds for New York Chapter, American Red Cross. Mr. Raymond C. Reik, chairman of the Accountants group, urging support of Roll Call, November 11-28, said:

"When hurricanes and floods caused great losses recently the Red Cross promptly gave relief in the stricken areas. Each disaster emphasized the vital necessity of maintaining this permanent relief agency, always ready to serve. We realize that Red Cross relief is as indispensable in peacetime as in wartime.

"Disaster relief is only one of the services rendered by the Red Cross. It must be maintained to serve our people. It has no government appropriation. Its work is financed by voluntary contributions — Roll

Call memberships. Everyone should give.

"New York Chapter, Red Cross, conducts a great peacetime relief and educational work in Manhattan and Bronx. During the year 125,000 persons went to the Chapter for aid, information or advice. The Chapter cared for 11,943 needy or disabled veterans and their families, obtaining jobs for 1,165. The Chapter trained 5,554 citizens in first aid, 2,024 in home care of the sick, and 17,024 in life saving. Its volunteers made 78,772 relief garments and 1,690,405 surgical dressings, brailled books for the blind and served freely in 12 city hospitals. It gave disaster relief.

"I urge everyone to support this necessary work. Join during the membership Roll Call, November 11 to 28."



This Call is Nation Wide

TO Accountants

**WHO ARE HELPING THEIR CLIENTS
OBTAIN MORE DETAILED INFORMATION
ABOUT INDIVIDUAL EMPLOYEES'
PAYROLL AND EARNINGS
RECORDS**

While you are helping your clients meet any new requirements for information about earnings and deductions records of individual employees, be sure to investigate Burroughs new machine developments affecting this work.

There are now many types and styles of Burroughs machines for handling this work, such as machines which compute earnings and prepare individual's earnings record, payroll sheet, pay check or pay envelope all in one operation. They also automatically accumulate such labor statistics as hours, earnings, various deductions, and net pay for any period. In fact, much of the needed earnings and deductions information can be obtained as a by-product of the regular work of these machines.

Our local office will be glad to demonstrate these new machines, and show you how they can be applied to your problem. You may telephone, or call at, our local office; or write direct to Detroit.

**BURROUGHS ADDING MACHINE COMPANY
DETROIT, MICHIGAN**

Burroughs

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

CERTIFIED PUBLIC ACCOUNTANT

Official Organ of The American Society of Certified Public Accountants

The Accountants Publishing Co.

In This Issue

	PAGE
<i>Accounting for Depreciation (1675)</i>	708
<i>Membership in a Professional Organization</i> —WM. D. MORRISON	709
<i>Goodbye '35—Welcome '36—D. W. SPRINGER</i>	710
<i>Farm Credit System—E. H. LEMASTERS</i>	711
<i>General Audit Program and Procedure</i> —HERMAN M. KNOELLER	717
<i>Inflation—HAL CROUCH</i>	721
<i>Seen in Published Financial Statements—W. T. SUNLEY</i>	725
<i>Accounting Practice in the Smaller Communities</i> —GEORGE W. SIMS	733
<i>The Social Security Act—ROY KATZ</i>	736
<i>Usefulness of Organization for C.P.A.'s—JOSEPH THIEBERG</i> ..	738
<i>What Is a Room?</i>	739
<i>Capital and Labor in Ancient Rome—HERMAN HERWOOD</i>	740
<i>Education Committee Report (Oklahoma State Society)</i>	742
<i>Intellectualist vs. The Materialist in Accountancy</i> —MAURICE V. GENEZ	744
<i>Talking Shop—LEWIS GLUICK</i>	745
<i>Wee Bits on Accountancy—LOUIS S. GOLDBERG</i>	747
<i>C.P.A. Examination Question, May, 1935, Auditing</i>	748
<i>Questions and Answers Department—STEPHEN GILMAN</i>	751
<i>Book Reviews</i>	752
<i>Social Security Act</i>	754
<i>Blessings</i>	755
<i>Report of Committee on Cooperation with Trade Groups</i>	755
<i>Report of Committee on One National Organization</i>	757
<i>State Society News</i>	765

To those who plan to take the next C.P.A. examination

IN addition to its regular Course, the International Accountants Society, Inc., offers a special Coaching Course for Accountants who are planning to take the C.P.A. Examination.

This Course will be supplied only to those who are already competent accountants, as no attempt is made to teach general accounting in this course. The instruction is pointed directly at the C.P.A. Examination.

Something more than a knowledge of accounting is necessary to insure success in the examination room.

Solving examination problems is vastly different from the usual work of making

Particularly noteworthy features of the training are:

- 190 problems in Practical Accounting with solutions and comments
- 100 questions and answers in Accounting Law
- 100 questions and answers in Auditing
- 100 questions and answers in Theory of Accounts

Elaborate explanations and comments that include, in addition to the finished statements or solutions, such items as suggestions for "Notes to the Examiner," working sheets, side calculations, use of proper terminology, and discussions of authoritative opinions.

Problems and questions (1) actually used in a C. P. A. or an A. I. A. examination, or (2) specially prepared to train the candidate in handling certain points likely to be encountered in the examination.

Personal correction, criticism, and grading of every examination paper by a Certified Public Accountant who has himself passed the C. P. A. examination. There are sixteen such Certified Public Accountants on the Active Faculty of the International Accountants Society, Inc.

audits, installing systems, or conducting investigations. Many men with little or no practical experience can solve C. P. A. problems readily—many others with years of experience flounder pitifully in the examination room. **WHY?** The candidate is required to work at top speed. He must work with limited information. He has to construct definitions. Very often it is necessary for him to use unusual working sheets.

The C. P. A. Coaching Course given by the International Accountants Society, Inc., prepares you to meet such conditions. The fee is \$42, and the text consists of twenty lessons.

A BOOKLET, "How to Prepare for the C.P.A. Examination," is available for those who are interested. For a free copy, just write your name and address below and mail.

INTERNATIONAL ACCOUNTANTS SOCIETY, Inc.

A Division of the ALEXANDER HAMILTON INSTITUTE

To the International Accountants Society, Inc., 3411 South Michigan Avenue, Chicago, Illinois.

Send me the special booklet, "How to Prepare for the C. P. A. Examination," which describes your special Coaching Course for Accountants.

Name.....Company.....

Address.....

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT



Powers Punched Cards give OLD COLONY TRUST COMPANY*

New England's largest corporate fiduciary

**positive accounting and control
of securities, cash and income**

★Allied with THE FIRST NATIONAL BANK OF BOSTON

WITH NO DEPARTURE from the accepted customs and principles of good accounting, Powers Punched Card methods help Old Colony Trust Company of Boston to keep positive daily control of the vital transactions of its business.

Powers equipment gives constant proof of accounting — makes trial balances an incident rather than an ordeal.

There is continuous control of the movement of cash and securities, with the ability to reproduce investment lists and give tax information within minutes as against hours or even weeks. There is absolute control of income, with disposition of it in a few hours.

These are the essentials that make material savings with simplicity and accuracy for a company entrusted with handling millions of dollars.

If you are a banker, Powers machines will help on trust accounting, investment control, stock transfer and general accounting.

If you operate chain stores, investigate Powers methods of automatic inventory control, automatic billing and analysis.

If you operate a public utility, find out about Powers methods of billing, inventory control, general accounting.

Without obligation, our representative will call and show you what Powers machines can do for you.

Hundreds of Powers installations in insurance companies, railroads, industrial concerns, department stores, Federal, State and Municipal Governments, prove the value of Powers Punched Card Accounting Machines under almost every conceivable condition.

Why not have our representative study your business, give you his definite findings? His advice will be unbiased because he represents Remington Rand . . . which makes all types of office equipment. He is interested only in providing the method which will deliver the greatest profit to you.

Powers machines are leased; you can use them without capital investment. Punched card control comes as an added plus value.

Telephone Remington Rand . . . or write Remington Rand Inc., Buffalo, N. Y., and ask to see Powers machines in use in your city.

Remington Rand
POWERS
Accounting Machines

OK..it's from Remington Rand

Listen to the "March of Time" every night except Saturday and Sunday 10:30 E.S.T., Columbia Network

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

FOR YEARS UNDERWOOD ELLIOTT FISHER HAS
CARRIED IN ITS LITERATURE THE STATEMENT:

"Ask Your Accountant how our machines will help you"

Thus we invite the cooperation of members of the accounting profession in connection with the effective application and installation of Accounting Machines.

Underwood Elliott Fisher maintains a Library of Machine Accounting Applications which

is available to you upon request. Please feel free to call upon us, without obligation of course, if we can be of assistance to you.

Accounting Machine Division

UNDERWOOD ELLIOTT FISHER COMPANY

Accounting Machines . . . Typewriters

Adding Machines

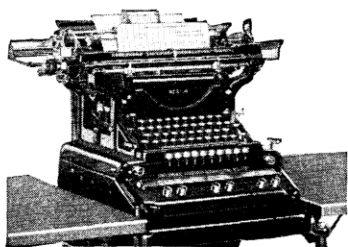
Carbon Paper, Ribbons and other Supplies

342 Madison Ave., New York, N. Y.

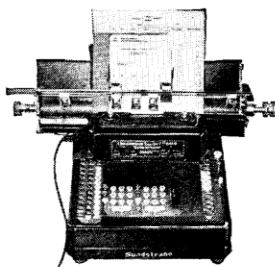
Sales and Service Everywhere

UNDERWOOD ELLIOTT FISHER ACCOUNTING MACHINES

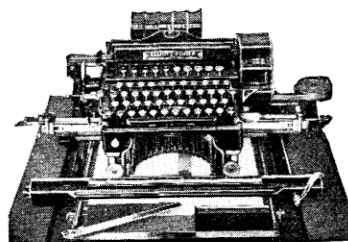
Every UNDERWOOD ELLIOTT FISHER Accounting Machine is backed by nation-wide, company-owned service facilities



Underwood Model



Sundstrand Model



Elliott Fisher Model



There is an Underwood Elliott Fisher Machine for every accounting purpose

Underwood Elliott Fisher Speeds the World's Business

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

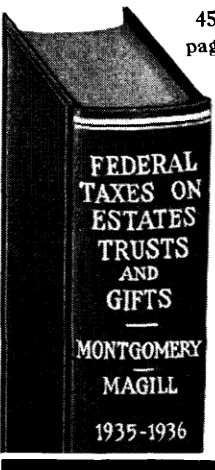
Ready in December — ROBERT H. MONTGOMERY's new
Tax Manuals for 1935-36:

FEDERAL INCOME TAX HANDBOOK

corporate and individual income taxes,
capital stock tax, excess profits tax; and 1150 pages **\$10**

Federal Taxes on ESTATES, TRUSTS, and GIFTS

prepared in collaboration with
Roswell Magill of the New York Bar



450 pages **\$5**

LEGAL and ACCOUNTING viewpoints combined at every step; Expert comments and counsel on application of each tax; Specific recommendations of procedure to follow; Trustworthy interpretation of new or doubtful provisions.

TAX problems you face today are difficult. Rates are high. Many provisions of the law are new and untried. The Government needs money and is plainly out to extract every possible penny.

This year as never before, your important opportunities to make tax savings for your clients or employers lie in the *interpretation* to be placed on the law.

They lie in your handling of unsettled or doubtful points; in your exercise of judgment where there are alternative courses; in the position you take where there is a possibility that the present construction of

the law may be upset by the courts. To keep clearly on the safe side in treatment of specific transactions, will call for your highest skill in selection and application of right *accounting* procedure.

Interpretation, Not Mere Compilation

Montgomery's new tax manuals meet exactly your requirements in both the *interpretative* and *accounting* aspects of tax work.

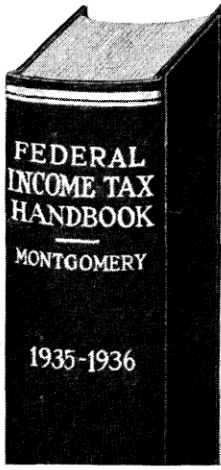
They give you the short, decisive final advice and recommendations to which the reams of cases, decisions, and rulings actually reduce. They give you, not pages and pages to work over yourself, but the *result* of organized research and experience accumulated over a period of years by a leading authority and a staff of legal and accounting specialists. They show you where to concentrate your attention; what to do *now* and all through the year.

The things that count in federal taxes are all in these manuals, brought to your fingertips by a plan of arrangement and indexing that makes them unique among tax publications for the ease with which you get an understandable, trustworthy net *answer*.

For Prompt Delivery, Order NOW

ACCOUNTING firms, law firms, banks, and business organizations all over the country use the Montgomery manuals year after year. We are sure it will pay *you* to use them, so great are the benefits possible through the kind of counsel they offer, and so little the cost.

Copies will be ready in December. You risk nothing in sending for them now—you have the privilege of returning them without further obligation if they are not satisfactory. Use the handy order form at the right.



The Work of an Outstanding Authority

ROBERT H. MONTGOMERY is eminently qualified to offer counsel of the type this Handbook represents. For years he has made special study of tax legislation. He stands as one of America's highest authorities.

He is a Certified Public Accountant; Counsellor-at-Law, member of the firm of Lybrand, Ross Bros. & Montgomery; editor of the *Financial Handbook*; author of *Auditing*, of *Federal Tax Practice*, of *Income Tax Procedure*, 1917-1929, and of the *Federal Tax Handbooks*, 1932-36.

—with a staff of Legal and Accounting Specialists

SPECIAL PRE-PUBLICATION OFFER

If you order both books—both the *Federal Income Tax Handbook* 1935-36 and *Federal Taxes on Estates, Trusts, and Gifts* 1935-36—and order now, before publication, you get them at the special combination price of \$12.50 for the two (you save \$2.50). And you have the protection these books offer from the start.

Mail This Form

THE RONALD PRESS COMPANY
Dept. M62, 15 E. 26th St., New York, N.Y.

Please send me, as soon as published, the tax books checked:

- ☐ **Federal Income Tax Handbook 1935-36**, price \$10.00
- ☐ **Federal Taxes on Estates, Trusts and Gifts 1935-36**, price \$3.00
- ☐ **Both the above books** at the special combination price of \$12.50

(above price good only on orders for both books received before their publication in December)

Within 5 days after the books reach me. I will remit the price stated, plus a few cents delivery. Or, if they are not satisfactory, I will return them to you within that period. (We pay delivery if you send cash with order; same return privilege.)

Name
(please print)
Firm or
Reference Position
Business Address
City State

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT

The Certified Public Accountant

DEVOTED TO THE INTERESTS OF THE C.P.A., HIS CLIENT, AND THE PUBLIC WELFARE

VOL. XV

December, 1935

No. 12

Editor: DURAND W. SPRINGER. Published monthly by The Accountants Publishing Company. *Publication office:* Candler Building, Baltimore, Maryland. *Editorial office:* National Press Building, Washington, D. C. All communications for publication should be addressed to the Editorial office, National Press Building, Washington, D. C. *Subscription price:* A year of 12 issues, \$2.00; twenty cents a copy. Entered as second-class matter, January, 1934, at the post office at Baltimore, Md., under act of March, 1879.

The President's Page

Membership in a Professional Organization

by WM. D. MORRISON, C.P.A.

AS a general rule the leading practitioners of a profession are members of their State and national organizations, because they well realize the benefit that is received by association with members of a like profession through the discussion of current problems, and the exchange of ideas.

Because of the complexity of the problems that arise, it is quite as necessary for a professional person to belong to the State and the national organization as it is to maintain the proper equipment of the particular profession to which he belongs.

Customarily the State groups have more frequent meetings than do the national organizations. This gives the members an opportunity to take up local questions as they arise and also to discuss questions of national interest. The meetings of national organizations are held usually about a year apart. Problems more of a national scope are brought up at these meetings and discussed.

It is impracticable for the entire membership of a profession to attend the national meetings, for the reason that accounting engagements, legal practice, and medical and surgical treatment must, of necessity, be continuous. Fortunately those who are privileged to attend the national meetings represent the various states, and they take home to the local group the points of greatest interest; while the topics of importance, which are discussed, appear in the publications of the profession. By this procedure the views of the practitioners are broadened and new ideas developed.

It is the willingness of the experienced practitioner to give to the younger and less experienced members, sound counsel and advice, that

keeps the profession advancing. Without such contributions the development of any profession will become stagnant and decline.

The utility value of a professional organization depends upon its representative character. It should represent every practitioner in the field. Without adequate and consistent support on a broad base of membership its usefulness is greatly retarded. The organization must receive the moral support of the group it serves. Its affairs must be administered without fear or favor, for the betterment of the entire profession, regardless of individual consequences. Such an organization is necessary, and fully justifies its existence.

While a practitioner is going about his usual routine, his professional organizations are looking after his interests, and doing what they think best for the advancement of the profession.

Very often members of a profession feel that they cannot devote any time to the professional organization, but have a great interest in the good that is gained from such membership. Realizing that the larger the membership the greater the strength, and the larger the membership the greater the benefit to each individual, it is, therefore, of the utmost importance that a person belonging to a particular profession should belong to both his State, and the national organization, and through his membership therein, acquire the maximum amount of benefit to be derived therefrom.

Goodbye '35—Welcome '36

D. W. Springer, C.P.A.

THE year 1935 closes with many professional problems in abeyance. Most of them will be passed upon in 1936. Defects may be better found with a microscope but telescopes enable observers to judge more accurately as to distance. The microscope is used with a downward view and concentrates on a narrow field while the telescope requires an upward look and furnishes an enlarged field for exploration. What has not only 1936 but the next score of years in store for the profession?

As we cross the line let us not lose sight of the experiences of the past. On the other hand, let us set the professional goal of attainment so far in advance that it will be necessary for every individual member thereof to bestir himself in order to keep up with the procession.

Too much time and energy has been necessary in the past in bringing organization activities up to the line of attack. Largely, so far in its history, the organization equipment has been dragging. May 1936 see it take an advanced position.

The Farm Credit System*

by E. H. LEMASTERS, C.P.A., Comptroller, Farm Credit Administration

IT is a privilege to have this opportunity to discuss with you the organization of the Farm Credit Administration, its aims and purposes and some of the accomplishments of the past two and one-half years.

The Farm Credit Administration, which came into existence in May, 1933, as an independent establishment of the government, has been charged with the necessity of consolidating and coordinating the agricultural financing activities of the Federal Government and institutions under its supervision; and in addition, has been directed by the Congress to administer certain laws of an emergency nature which were designed to relieve the distress created by the recent depression. In order that we may not be confused between the functions of the Farm Credit Administration which are permanent in character and those which are essentially of an emergency nature, I shall dispose of the latter at the outset and proceed thereafter to consider the substantive operations of the Administration in which we are primarily interested.

Under the plan adopted for handling emergency financing, existing permanent institutions under the supervision of the Farm Credit Administration maintained their previously established high standards with respect to loan policies. Credit needs which could not be met by the permanent institutions on this basis were met by emergency agencies with loan funds provided directly by the United States Treasury or through the issuance of securities guaranteed by the Federal Government. As the need for them passes, these emergency agencies can be liquidated without interfering with the lending operations or affecting the financial condition of the permanent institutions.

Emergency loans in the field of farm mortgage credit are made by the Land Bank Commissioner through loans which generally have been termed "Land Bank Commissioner's Loans." Loans from this

source provide credit in cases in which farmers were unable to comply with the high security requirements enjoined upon the Federal land banks, or required funds in excess of the percentage of the appraised value of the land which the Federal land banks were authorized to loan. These loans are made for long periods of time upon the security of either first or second mortgages on real or personal property and may not exceed \$7,500 or, together with any prior liens, 75 per cent of the appraised normal value of the property mortgaged. Funds for this type of loan are not derived from the sale of Federal land bank bonds but are provided at the present time by the Federal Farm Mortgage Corporation which I will mention later.

In terms of dollars the demand for short-term credit was, of course, smaller than that for long-term credit during the emergency. Requirements for short-term credit, however, were handled according to the same general plan as those for long-term credit. Permanent agencies expanded their normal lending operations while temporary agencies advanced Government funds in large volume to relieve acute distress.

In the fall of 1932, when it became apparent that country banks and other local financing institutions were unable to meet the short-term credit needs of agriculture, 12 regional agricultural credit corporations were organized to make direct loans to farmers and stockmen for general agricultural and livestock purposes. These corporations were originally chartered and entirely capitalized by the Reconstruction Finance Corporation; however, their supervision was transferred to the Farm Credit Administration upon its formation and they are now in the process of liquidation.

As a part of its emergency aid to agriculture Congress continued to make funds available for emergency loans to farmers for crop production, the purchase of feed for livestock, and similar purposes. A sharp distinction should be drawn between

*Address at annual meeting of The American Society of Certified Public Accountants, Kansas City, Mo., October 3, 1935.

emergency loans of this type, popularly known as "crop loans," and loans made by production credit associations which I will discuss later. "Crop loans" are made directly from Government funds only to farmers who, because of their inability to offer adequate security, cannot obtain credit from other sources and are secured by first liens on the crops to be grown or the livestock to be fed. Consequently, they constitute, in effect, a mixture of credit and relief.

As I indicated at the outset, the Farm Credit Administration is primarily concerned with the continued development of an adequate and permanent system of credit for farmers and their cooperative organizations. The types of credit provided by this system may be broadly classified as long-term, short-term and intermediate credit, and credit for farmers' cooperative, marketing, purchasing and business service associations. This credit is extended by the institutions to which I shall now direct your attention.

Long-term loans are made by 12 Federal land banks principally through national farm loan associations of which there are approximately 5,000. The Federal land banks were organized under authority of an Act of Congress, approved July 17, 1916, and were placed under the supervision of the Farm Credit Administration in 1933 without important change in function.

Their loans may be made only on the security of first mortgages on farm land; are limited by law to 50 per cent of the appraised normal value of the land mortgaged plus 20 per cent of the appraised value of the permanent insured improvements; and may not exceed, in the case of any one borrower, \$50,000. The value of the property mortgaged is ascertained by an appraisal made by a land bank appraiser, who is not an employee of the banks but is a public officer appointed by and serving under the jurisdiction of the Land Bank Commissioner who is also a public official serving under the Farm Credit Administration. In arriving at the appraised value of a farm, the earning power of the property is a principal factor. An estimate is made of the average annual yields of crops that the farm would ordinarily produce in the hands of an average

farmer, taking into consideration quality of soil, topography, normal rainfall, frequency of subnormal precipitation, and other related factors. Average unit prices for commodities received by farmers during 1909 to 1914, with such adjustments as may be necessary by reason of subsequent changes in the economic position of certain commodities, are applied to the quantity of crops produced in establishing the average annual gross income. In establishing the value of the farm, the appraiser considers not only the production factors but also location, farm desirability, special hazards, replacement value of buildings, less depreciation, etc.

The farmer-borrower who obtains a Federal land bank loan through a national farm loan association purchases stock in the local association in an amount equal to 5 per cent of his loan. The association indorses and becomes liable for the payment of all mortgages given by its members to secure loans obtained from the Federal land bank, and the association subscribes to capital stock in the bank in an amount equal to the stock subscribed by its members. The borrower's stock is held by the association as collateral security against loss as indorser of the loan; and the stock of the Federal land bank subscribed by the association is pledged with the bank as collateral for the association's indorsement.

The capital structure of the Federal land banks is divided into capital stock and paid-in surplus. The capital stock is owned in part by national farm loan associations and borrowers, and in part by the United States Government. On August 31, 1935, the national farm loan associations and farmers borrowing directly or through agents, owned \$110,809,260 or 47 per cent of the outstanding capital stock and the United States owned \$123,097,895 or 53 per cent. The paid-in surplus of the banks which on August 31, 1935, was \$85,793,920 has been subscribed and paid for by the United States.

Although the capital structure of the Federal land banks includes a portion of government funds, the major portion of their loanable funds is secured from the sale of securities to the investing public. Prior to the passage of the Emergency

Farm Mortgage Act of 1933, the Federal land banks had outstanding \$1,120,000,000 of first mortgage loans financed by the sale of farm loan bonds. After enactment of that law, however, it was found that the bond market could not absorb a sufficient volume of Federal land bank bonds to meet the refinancing demands made upon the Federal land banks. To alleviate this difficulty, Congress established the Federal Farm Mortgage Corporation, and authorized it to issue obligations fully guaranteed by the United States Government, which the market would absorb, and, by exchanges, provide a market for farm loan bonds.

The bonds of the Federal land banks are secured by eligible first mortgages upon farm real estate, obligations of the United States Government and cash in an amount at least equal to the face value of the bonds outstanding. The security is pledged with a public officer known as the Farm Loan Registrar. Before a first mortgage loan may be pledged as security for a bond issue, it is critically examined and approved by the Farm Credit Administration in Washington. The impartial examination which is made by the Farm Credit Administration of all security and the independent custody of the collateral maintained by the registrar manifest the degree of protection afforded by the Federal Government to the investing public.

Few have realized the magnitude of the task imposed upon the Farm Credit Administration by the passage of the Emergency Farm Mortgage Act of 1933. All facilities of the banks were overtaxed. Applications for loans were received at the rate of about 17,000 per week and there were only 210 appraisers in the entire Federal land bank system. Every effort was concentrated on increasing the staff of competent appraisers to meet the flood of business which was pouring in. Not until the number of appraisers reached the 3,000 mark was the Farm Credit Administration able to announce that appraisals were being made as rapidly as applications were being received.

The volume of business placed on the books illustrates the extent of this task during the past two and one-half years. At the end of 1932 the total mortgage

loans outstanding in the system aggregated \$1,128,500,000. From January 1, 1933, to August 31, 1935, the banks loaned \$1,067,228,000. In other words, the amount loaned during approximately the past two and one-half years was approximately equal to the amount of credit extended by the banks in the preceding 16 years of their operations. On August 31, 1935, the outstanding loans of the Federal land banks totaled \$2,036,066,532.

I have previously mentioned that the Federal Farm Mortgage Corporation was created to provide a temporary market for the bonds of the Federal land banks. It was also created to provide funds for the making of Land Bank Commissioner's loans. The act establishing the Corporation provided that the Governor of the Farm Credit Administration should subscribe to an authorized capital of \$200,000,000 on behalf of the United States and that for the purpose of capital subscription the funds and proceeds made available to the Land Bank Commissioner under the Emergency Farm Mortgage Act of 1933 and the mortgages taken by him in conformity with that act were to be transferred to the Corporation. Subject to the approval of the Secretary of the Treasury, the Corporation is authorized to issue and have outstanding at any one time bonds in an aggregate amount not to exceed \$2,000,000,000. Federal Farm Mortgage bonds are secured by the assets of the Corporation consisting principally of consolidated Federal farm loan bonds and notes and mortgages executed in connection with loans made by the Land Bank Commissioner. In addition, they are fully and unconditionally guaranteed both as to interest and principal, by the United States Government. The Corporation obtains the Federal farm loan bonds of the banks through an exchange arrangement. All exchanges are made on the basis of par for par with adjustments for accrued interest to the date of exchange. For a considerable period, the banks used the bonds of the Federal Farm Mortgage Corporation so acquired in disbursing the proceeds of their loans, but this procedure has been discontinued at the present time and loans are closed totally in cash. On August 31, 1935, the total of Corporation bonds issued

and outstanding amounted to \$1,282,704,000.

The second type of credit extended by the permanent institution under the supervision of the Farm Credit Administration is for short periods of time to finance general agricultural and livestock operations. These loans are secured by liens upon crops, livestock and other personal property and are made available to farmers through approximately 560 production credit associations. These associations are organized, capitalized in part, and supervised by 12 production credit corporations formed under the same act. I might add parenthetically that the 12 production credit corporations have no lending activities but were created for the sole purpose of providing a convenient decentralized system for the supervision of the production credit associations.

The production credit associations are cooperative organizations managed and owned in part by farmer-borrowers. The capital stock of production credit associations is divided into class A and class B stock. Class A stock, which is non-voting but is preferred as to assets upon liquidation, is held principally by production credit corporations, although it is available for purchase by private investors. Only farmer-borrowers and persons eligible to become borrowers are permitted to purchase class B stock, which has all the voting rights; each stockholder being entitled to one vote. Class B stock is subscribed for and paid in as loans are made, each borrower being required to own class B stock in an amount equal in fair book value to 5 per cent of his loan. Upon liquidation of his loan, a borrower may transfer his class B stock to another farmer-borrower or person eligible to become a borrower, or he may exchange it for A stock. The par value of the capital stock of production credit associations aggregated \$84,414,642 as of August 31, 1935, of which \$77,101,650 was class A stock owned by production credit corporations and \$7,302,992 was class B stock held by farmer-borrowers.

The loanable funds of the production credit associations are obtained through discounting paper with the Federal intermediate credit banks. These banks, which

are wholesalers of credit for they make no loans to individual farmers, obtain their loanable funds through the issuance and sale of collateral trust debentures of maturities ranging from 3 to 12 months. The high financial rating accorded these debentures has enabled the banks to sell them at rates as low as $1\frac{1}{2}$ per cent (which is the present rate) and thereby make credit available to agriculture on the most favorable terms.

The paid-in capital of these banks on August 31, 1935, was \$70,000,000 and paid-in surplus aggregated \$30,000,000, all of which was owned by the United States Government.

The third type of credit afforded agriculture by the Farm Credit Administration system is made available to farmers' cooperative marketing, purchasing, and farmer business service associations through a central bank for cooperatives and twelve district banks for cooperatives which were organized under the Farm Credit Act of 1933. The banks for cooperatives make loans upon a sound business basis for the purpose of providing cooperative associations with working capital and to enable them to construct or acquire physical facilities. Each bank for cooperatives is capitalized at an amount which the Governor of the Farm Credit Administration determines is necessary to meet the credit needs of eligible borrowers in the territory served by it. The Central Bank for Cooperatives at Washington which provides credit for the larger cooperative associations was initially capitalized at \$50,000,000 and each of the 12 district banks for cooperatives was capitalized at \$5,000,000. Additional capital is provided by the borrowing cooperative association which is required to own at the time the loan is made an amount of stock in the bank equal in fair book value to 5 per cent of the amount of their loans unless borrowing on the security of commodities in which case a lesser amount of stock is owned. In states in which such subscriptions to stock by cooperative associations are contrary to law, the association must pay into a guaranty fund an amount equal to the stock subscription it otherwise would have been required to make. Upon payment of a loan, a borrowing association may, if it elects, have its stock or subscrip-

tion to guaranty fund retired at par less the pro rata impairment of the capital and guaranty fund, if any. On August 31, 1935, the amount of capital stock owned by borrowing associations plus subscriptions to the guaranty fund amounted to \$407,600 for the Central Bank for Cooperatives and \$1,273,100 for the 12 district banks for cooperatives.

The funds loaned by the banks for cooperatives are derived from their capital and from their borrowings by way of discount with the Federal intermediate credit banks, which I have previously discussed. The outstanding loans of these banks on August 31, 1935, aggregated \$31,454,997.

Thus, there are in the permanent system of farm credit 12 Federal land banks, 12 production credit corporations, 12 Federal intermediate credit banks, and 13 banks for cooperatives, designed to meet all of the financial demands of agriculture. In order that these diverse activities might be effectively coordinated, Congress provided that the continental United States shall be divided into 12 districts in each of which there is located and housed in one establishment, one of each of the foregoing institutions. These institutions are managed under the supervision of the Farm Credit Administration by a common board of directors which, in order to integrate their activities and avoid a duplication of effort, appointed a chief coordinating officer known as the General Agent. Under the General Agent there have been placed the general supervision of common activities of the four institutions in each district, which, among others, include accounting, statistical, legal and personnel.

The chief accounting officer in each district is known as the district comptroller. He has full authority to prescribe accounting methods in the district credit units subject to instructions issued from the Farm Credit Administration in Washington. He also develops and recommends the installation of proper office procedure, conducts surveys of various departments and units and makes appropriate recommendations for improvement from an efficiency standpoint. A system of continuous internal audit and verification of accounts has been established under the direction of the district comptroller which provides safe-

guards in the disbursement of funds and in the receipt and application of remittances, as well as an effective control over the recordation of transactions generally.

In order to assure uniformity in the handling of accounts throughout the system, manuals of accounting procedure and charts of accounts have been prescribed for the Federal land banks, the Federal intermediate credit banks, the production credit corporations and associations, and the banks for cooperatives by the Farm Credit Administration in Washington. As law or regulation is changed, amendments to these manuals are immediately issued from Washington and forwarded to the institutions. It devolves upon the district comptroller to see that the uniform practices prescribed are adhered to in all institutions in his district. Prior to the spring of 1935, the credit units did not operate under strictly uniform accounting practices, and it was practically impossible at that time to present an accurate consolidated statement of the operations of the several units. This situation, of course, is no longer existent.

May I illustrate the exactness with which our accounting manuals are prepared and our accounts are now maintained by referring to the manner in which the real estate account in the Federal land banks is handled. Upon the acquirement of real estate through the foreclosure of a mortgage loan or otherwise, the banks are required to secure an appraisal within one year from date of an acquisition. Pending an appraisal, they are required to carry a reserve for not less than the interest included in the investment at date of acquisition. After appraisal, the amount at which the property is carried in the assets of the bank must be adjusted to its reappraised normal value or the bank's investment therein at the date of acquisition, whichever is lower. This figure is commonly known as carrying value and is the figure shown on the balance sheet after deducting the real estate reserve from the real estate investment. Real estate investment consists of the unpaid principal balance of the mortgage loan, plus matured and accrued interest (excluding penalty interest), to the date of the legal removal of the loan from the mortgage loan ac-

count, plus cash advances made prior or subsequent to the date of acquisition, less recoveries from capital stock issued to the original borrower, less receipts from rentals, leases, etc.

With the same care and completeness, 247 general and special ledger accounts have been prescribed for each Federal land bank.

The district comptroller is not charged with the responsibility of operating the accounting departments of the various institutions. This responsibility is delegated to a Chief Accountant in each unit, who has under his direction, in some instances, as many as three hundred employees.

The technical qualifications of persons occupying the positions of district comptroller and chief accountant have been rigidly fixed by the Farm Credit Administration. Consequently, a considerable number of certified public accountants are employed in the accounting departments of our institutions as well as in the Washington offices.

Notwithstanding the internal accounting controls which have been set up, all credit units are subjected to a careful and detailed examination, annually or semi-annually by an examining staff under the direction of a chief examiner. These examiners are public officers, paid by the Farm Credit Administration, and have complete authority to investigate or audit any transactions of the units. A majority of the examining staff are certified public accountants and all of them are required to have special training and experience in accounting, banking, agricultural finance and credit, as well as to pass a civil service examination prepared especially for the selection of land bank examiners. In addition, before undertaking assignments in the field, they are given an intensive course of instruction in the scope and technique of mortgage bank examination. Reports are submitted by the examiners to the Farm Credit Administration and to the institution or office concerned. These are carefully reviewed by officials in Washington and a detailed analysis discussing its significant features is forwarded to the institution concerned. Recommendations for remedial and corrective action and sug-

gestions in regard to current practices or policies are made whenever necessary.

At the present time the Farm Credit Administration is engaged in further accounting studies with the view to establishing budgetary control of the fiscal requirements of the credit units and a complete and comprehensive system of cost accounting which will provide accurate data as to functional and departmental costs in the field of mortgage lending. Considerable progress in this work has been made to date although the difficulties encountered in the development of this phase of our accounting activities has impressed upon me the correctness of the remarks of President Heaton in the most recent issue of *THE CERTIFIED PUBLIC ACCOUNTANT*. You will recall, he stated that the need of the accounting profession is research. I am sure we all will heartily subscribe to that statement. It is my hope that the studies which are being made by the Farm Credit Administration in the field of mortgage loan accounting may, one day, result in at least a small contribution to the science and to the profession.

Dangers of a New Speculative Boom

Many of the capital flotations of today are now concerned with the offer of Ordinary share capital. At the commencement of the movement when the investor was "shy" it was usually a case of offering Debenture stock or Preference shares, but now that the more speculative tendencies have been awakened Ordinary capital is being offered. In this there is nothing wrong in itself. What, however, is very noticeable is that advantage is being taken of the difficulty in obtaining an adequate yield on sound prior charge stocks to offer Ordinary capital on terms where the yield is little better than might be expected from a well-secured Preference share. It behooves investors therefore to scrutinize with more than ordinary care the prospectuses brought to their notice.

(The Spectator: July 5.)

General Audit Program and Procedure

by HERMAN M. KNOELLER, LL.B., C.P.A., Milwaukee, Wisconsin

(Concluded from page 672 November issue)

XXIII. Land Records

1. Trace transactions back to inception.
2. Scrutinize land purchase contracts and cancelled checks.
3. Inspect official records of ownership at Register of Deeds for deeds, mortgages, judgments, liens or clouds upon title.
4. Procure abstract of title and examine the same.
5. Classify and distribute income and expense as follows:
 - A) Operating land.
 - B) Expansion land—marginal safety.
 - C) Investment land.
6. Eliminate annual taxes as capital element, and include same as expense items, except in case of special assessments which may be added to book values.
7. Be sure that credits to land account are at cost and not selling price, and if profit is small it may be credited to non-operating income, or, if large, to Surplus Adjustment account.
8. Analyze and prepare schedules of land account from very beginning if this is the first audit.

XXIV. Sinking Fund Records

1. Examine trust agreement and make notes on provisions.
2. See that deposits are made for redemption of bonds in accordance with agreements.
3. Obtain certificates from Trustee as to unpaid principal and interest to date, and whether terms of trust indenture have been complied with.
4. Examine securities if in company's possession.
5. Prepare a schedule.

XXV. Furniture and Fixtures Record

1. Test footing and extensions.
2. Examine method of pricing and procure certificate from official.

3. Analyze and check all entries by examining vouchers for purchases.
4. Consider depreciation and the adequacy of the reserve therefor.
5. Differentiate between capital and revenue expenditure and eliminate expense items from the account.

XXVI. Notes Payable Record

1. Prepare schedule and classify the same into banks, brokers, trade creditors, and other creditors, showing dates, names, collateral held, endorsers, accrued interest, and renewals (trace renewals to inception and ascertain why not paid).
2. See that all notes payable appear on books.
3. Ascertain if any assets are pledged as security.
4. Reconcile the notes payable with the general ledger control account.
5. Verify by correspondence directly with holders of the notes.
6. Communicate with all institutions or persons from whom moneys have been borrowed on notes during the period.

XXVII. Accounts Payable Record— Trade

1. Watch out for frauds by failure to record allowances for returned purchases or credit memoranda and conversion of the cash therefor.
2. Procure or take a trial balance and reconcile the same with the control account in the general ledger, and at the same time age the accounts payable.
3. Verify the accounts payable with creditors' statements.
4. Scrutinize large vouchers of period subsequent to audit for items applicable to audit period but paid subsequently thereto and not entered on the books.
5. Investigate long standing open ac-

- counts and ascertain why purchase discounts are not being taken or money borrowed for that purpose from the bank.
6. Inquire as to goods in transit and the liability therefor.
 7. Inquire as to goods on consignment sold and liability therefor.
 8. Examine purchase contracts for future deliveries.
 9. Money usually borrowed to reduce accounts payable; if not reduced, ascertain why.
 10. Reconcile inter-company accounts.
 11. Investigate debit balances on account.
 12. Obtain certificate.

*XXVIII. Accounts Payable Record—
Other Than Trade—And Accruals*

1. List accounts payable to officers or employees.
2. Prepare schedule of all accrued liabilities and check calculations of items such as
 - A) Calculate interest on notes and bonds payable, accounts payable, taxes, judgments, and liens.
 - B) Accrued taxes may be determinable by examination of previous year's taxes (Generally).
 - C) Water, gas and electricity are usually paid two or four times a year; ascertain if any accrued and not paid; meter, if used, will indicate amount accrued.
 - D) Rent, if not paid in advance, accrued.
 - E) Inquire generally for liabilities incurred for which no bills have been rendered.
 - F) Accrued attorneys' and auditors' fees, commissions of salesmen and other expense bills should be investigated.
 - G) In making adjustments, consider adjustments at both the beginning and close of the auditing period.
 - H) Accrued dividends declared but not paid, constitute a definite liability.
 - I) Accrued cumulative dividends on preferred stock but not paid, constitute a contingent liability.
 - J) Examine salesmen's or agents'

contracts and accrued commissions.

3. Refer to extracts of minutes for liabilities not recorded.

*XXIX. Record of Reserves for Local,
State and Federal Taxes*

1. Analyze tax accounts.
2. Analyze reserve accounts.
3. Check computation of reserves.
4. Find out years examined by State and federal authorities and examine reports.
5. Scrutinize tax returns of previous period to see that they are properly prepared, if not prepared by recognized C.P.A.
6. Prepare schedules.

XXX. Funded Debt Records

1. Examine copy of trust indenture or bond mortgage and note if mortgage has been recorded, or any payments of record or any judgments of record.
2. Note any special stipulations in trust indentures and prepare schedule thereof.
3. Examine cancelled bonds and see that they have been properly mutilated.
4. Obtain cremation certificate for cancelled bonds and not available for inspection.
5. Examine coupon register.
6. Examine and check mortgages payable, noting the date, terms, rates of interest, amounts, description of security, and calculate accrued interest to date.
7. Make footnote of property mortgaged or pledged at foot of Balance Sheet, or prepare separate schedule therefor under an appropriate heading on Balance Sheet.
8. Reconcile with general control account.
9. Check interest accrued, especially bond interest and unpaid coupons.
10. Verify by correspondence directly with Trustee and obtain certificate from him that all provisions of trust deed, sinking fund, etc., have been complied with, and also the amount of

bonds outstanding and interest due and unpaid.

XXXI. *Reserve for Contingency Record*

1. These are reserves for losses not certain to occur, as distinguished from reserves for depreciation or bad debts, which are reserves for losses already suffered or deemed from experience to be inevitable.
2. Prepare schedule of all reserves, showing changes from the commencement of the audit period to the close thereof.
3. Investigate nature and adequacy of reserves, and whether secret reserves are being created by excessive charges for depreciation, bad debts, etc.
4. Refer to minutes for other reserves necessary and for authority for reserves already set up, being at the same time on guard for secret reserves.

XXXII. *Deferred Income Record*

1. Bear in mind the item of unearned income or deferred income generally when auditing both assets and liabilities.

XXXIII. *Capital Stock Records*

1. Watch out for fraudulent issue of stock certificates indiscriminately and promiscuously.
2. Read charter, articles of incorporation, by-laws and minutes for capital stock authorized, sales price, terms of subscription, whether conditional or unconditional.
3. If stock has been paid in property or services the full value should be shown.
4. Set up the premium on stocks sold as part of capital surplus not subject to dividends but to reduction for discount on stock.
5. Ascertain if employees subscribed for stock and the terms of subscription.
6. Obtain certificate from transfer agent or registrar and reconcile it with the general ledger of the account.
7. Prepare schedule showing capital stock authorized, outstanding and unissued.

XXXIV. *Partnership Investment Accounts*

1. Read partnership agreement for the purpose of determining:
 - A) The amount of capital each partner agreed to contribute.
 - B) Whether interest is to be allowed on capital or charged on drawings.
 - C) Whether partners are to receive salaries, and if so, how much.
 - D) What the limits are to drawings of partners.
 - E) Proportion in which profits or losses are to be shared.

XXXV. *Surplus Accounts or Record*

1. Analyze and prepare statement showing opening balance, all changes and closing balance.
2. Investigate unusual debits or credits.
3. Vouch dividends with minutes.

XXXVI. *Income and Profit and Loss Account Record*

1. Distinguish between operating profit or loss and non-operating profit or loss.
2. Prepare schedules for general expense, to-wit:
 - A) Legal fees.
 - B) Depreciation.
 - C) Bad Debts.
 - D) Taxes, including State and federal income tax, personal property, real property, capital stock tax.
 - E) Insurance, including casualty, fire, boiler, life, burglary, use and occupancy, cyclone and plate glass, fidelity bond.
3. Prepare schedules for additions to income, to-wit:
 - A) Interest.
 - B) Dividends.
 - C) Purchase discount.
4. Prepare schedules for deductions from income:
 - A) Paid and accrued interest on bonds, notes payable, etc.
 - B) Sales discount.
5. Prepare schedules for extraordinary items.
6. Prepare schedules for monthly totals

of returns and allowance, investigating unusual items.

7. Prepare schedules of sales by months and by departments.
8. Investigate for accrued expenses, such as wages, stationery, rent, insurance, taxes, etc.

XXXVII. *Contingent Assets and Liabilities*

1. Inquire as to and prepare schedules covering:
 - A) Especially unpaid cumulative preferred stock dividends.
 - B) Purchase contracts or commitments.
 - C) Notes receivable discounted.
 - D) Surety bonds signed.
 - E) Endorsements on notes for accommodation.
 - F) Signer of fidelity bonds.
 - G) Guarantees of production, etc.
2. Show the above as footnotes on the Balance Sheet.

XXXVIII. *General Verification From Inside Sources*

1. Inquire and make notes as to welfare plans, profit sharing and group insurance.
2. Inquire as to contracts and commitments and set up as footnotes on Balance Sheet.
3. Inquire and make notes as to special assessments for improvements, etc.
4. Inquire and make notes as to federal, State and municipal taxes, including penalties and additional assessments.
5. Inquire and make notes as to fidelity bonds of employees.
6. Make notes for firm's suggestion as to improvement of system.

XXXIX. *Verification From Outside Sources*

1. Of bank balance and liens against it.
2. Of last day's receipts shown as deposits but not yet received from banks.
3. Of notes receivable discounted and with banks for collection.
4. Of notes receivable unpaid.
5. Of accounts receivable unpaid.
6. Of notes and accounts payable.

XXXX. *Final Report*

1. An unqualified certificate is as follows:

"We have audited the accounts of the _____ Company for the year ending December 31, 1934, and we hereby certify that the attached balance sheet is, in our opinion, a correct statement of the financial condition as of December 31, 1934, and that the accompanying statement of profit and loss correctly presents the results of operation for the year ending with that date."

2. The form of certificate suggested in the Federal Reserve Bulletin on uniform accounting is as follows:

"I have audited the accounts of the _____ Company for the period from _____ to _____, and I certify that the above Balance Sheet and statement of profit and loss have been made in accordance with the plans suggested and advised by the Federal Reserve Board, and, in my opinion, set forth the financial condition of the firm at (date) and the results of its operation for that period."

3. A qualified certificate is as follows:

"We have audited the accounts of the _____ Corporation for the year ending December 31, 1934, and we hereby certify that, in our opinion, the accompanying Balance Sheet and statement of profit and loss correctly present the financial condition of the corporation as of December 31, 1934, and its operations for the year ending with that date; subject to the qualifying comments set forth in our report."

4. The main divisions of the report are as follows:

- A) Letter (including comments);
- B) Certificate;
- C) Exhibits;
- D) Schedules;
- E) Graphic charts (optional);

5. Exhibits are usually lettered and are fundamental statements concerning which the report is submitted, as:

- A) Balance Sheets.
- B) Comparative Balance Sheets.

- C) Manufacturing, trading and profit and loss statements.
 - D) Comparison of manufacturing, trading and profit and loss statements.
 - E) Surplus accounts.
 - F) Financial statements.
 - G) Comparison of financial statements of affairs.
 - H) Realization and liquidation statements.
 - I) Deficiency statement.
6. Schedules are usually numbered and are subsidiary statements presenting the details or analysis of items shown in the exhibits, to-wit:
- A) List of accounts receivable.
 - B) List of notes receivable.
 - C) Analysis of selling expense.
7. The main heading of an exhibit or schedule is divided as follows:
- A) Name of enterprise.
 - B) Description of statement.
 - C) Date or period covered.
8. The letter and certificate should answer the following questions:
- A) How much profit has the enterprise made?
 - B) How was the profit made?
 - C) In what form is this profit evidenced?
 - D) Is the financial position sound as to valuation and as to proper relationship of such values?
9. The index of the report may be as follows:
- Certificate.
 - Exhibit A—Balance Sheet.
 - Comments
 - Schedule 1—List of Accounts Payable.
 - Summary
 - Comments
 - Exhibit B—Trading and Profit and Loss Statement.
 - Comments
 - Schedule 1 — Manufacturing Statement.
 - Summary
 - Comments
 - Schedule 2—Analysis of Selling Expense.
 - Summary
 - Comments
 - General Comments.

Inflation *

by HAL CROUCH, Attorney, Tulsa, Oklahoma

I THINK you are the most adept surgeons in the world.

In the first place you specialize in a mystic study as beyond average understanding as the theory of relativity.

The symbols of your craft are as easy to decipher as the inscriptions upon the tombs of the Egyptian mummies.

Whether the operation be major or minor, the illness trivial or acute, the patient is invariably at the mercy of your diagnosis.

And to add to the gravity of it all, you are dealing with the most sensitive nerve in the human anatomy. Pressure on this nerve more has caused war, murder, robbery, and shaped and reshaped the map of the world, than all other causes combined.

*Address at the annual banquet of Oklahoma Society of Certified Public Accountants.

I refer, of course, to the pocket nerve.

The efficiency of your handiwork has never been questioned.

While the mortality rate of your clientele has been high, your craft has not yet received the blame for that. Your surgery has been skillfully performed. No rival wielder of an instrument can boast of prettier knife work around the vitals.

I repeat, you are marvelous!

You can take an ailing subject, strip off his accounts payable, lay him on an operating table, anesthetize him with foreign exchange, remove his income tax reserve, sew him up with good-will, pronounce him cured and send him happily on his way—unless a few years later he wakes up in a Federal court room and discovers that after all your operation was only an abortion.

Or you can take a healthy subject, deplete his resistance, give him a red ink hyperdermic, and send him out staggering under the burden of a profit-and-loss deficit from which he'll never recover.

That such a business has not been long ago outlawed is perhaps a tribute to the good nature—and short memory—of the average customer.

The foundation stone of the accountant's profession is a fairly constant medium of exchange. Be it tobacco, cattle, gold, tin or silver, the stability of that medium is essential. Stability of that medium is to you gentlemen what the compass is to the navigator, the X-ray to the physician, and the rule to the carpenter. Disturb that stability and the accuracy of your science is destroyed.

Hence, the question of inflation should be as vital a subject to you as to the banker, the insurer, or the wage-earner.

The German fiasco is hardly a case in point.

There were impossible Peace Conference impositions, including reparations of 132 billion gold marks. Upper Silesia was awarded to Poland. The French occupied the Ruhr Valley. The Germans deliberately sabotaged their own currency and printed four hundred thousand billion marks a day in a campaign of intentional inflation. Much as a hard-pressed merchant takes bankruptcy. It was merely Germany's method of wiping out her liabilities and starting with a clean slate.

The French inflation was largely due to that of Germany.

The French had relied upon full payment of German reparations and spent accordingly. I believe there were some other nations which had similar expectations. It was another case of counting the chickens before the eggs were hatched. There was an international raid upon the franc. There was a flight of capital. The Bank of France issued notes beyond the legal limit and financial statements which were false. When these frauds became known, panic ensued. The House of Morgan made a loan of one hundred million dollars, Poincaré formed a sound-money coalition cabinet, and in July, 1926, the franc was saved, although it was a smaller, scarred and crippled instrument of exchange.

They tell us that we are already in a period of inflation, that is credit inflation.

That is doubtless true if your definition of inflation is the excess of circulating medium over normal trade requirements. But we had that in 1932. And if you apply the same definition of inflation, then I submit we had it in the late twenties when the velocity of turnover in demand deposits jumped from a normal of about 50 times a year to 200 times a year.

But the inflation we fear, the kind that makes students and financial institutions shiver in their boots, is a different kind. The inflation that upsets the economic apple cart and produces a boom that is tragic in its cause, proportions, and effects is the inflation that springs from lack of public confidence in the medium of exchange.

And history proves that inflation and lack of confidence in a country's currency go hand in hand.

Then it is that we witness the wholesale flight of capital to safer ports, the withdrawal of savings accounts, the sacrifice of bonds, the cashing of insurance policies, and the desperate rush to convert money into things. This is the debacle every good citizen wishes to avoid. The grim prospect of inflation resulting from declining confidence is doubtless the most harrasing fear of the Administration today. And rightly so.

Any business man whose expenses exceed his income knows that sooner or later he must balance his budget or lose the confidence of his creditors. "Confidence," you will recall Gladstone told the House of Commons, "is suspicion asleep." And governments are in no different position except as to degree.

The Government to date has elected to utilize its credit rather than cease business or restrict its operations. It is gambling on an improving income to pay off the mortgage. No one knows just what Uncle Sam's line of credit amounts to but everybody knows that even he has a limit.

Thus today recovery is racing against inflation, against foreclosure and repudiation. The security of a Government bond after all is merely the ability of the Government to pay that bond when due.

Government obligations are selling above par now only because of the confidence of the public in the fiscal soundness of the Government. That confidence, however, will not and cannot indefinitely continue so long as the outgo exceeds the income. If, when and as any sizeable number of investors begin to lose confidence in the Government's ability to ultimately meet its obligations, the contagion of that fear will spread like wildfire and we shall be face to face with the inflation that comes to every government which must either take bankruptcy involuntarily or print more currency which is an insolvent sovereign's method of repudiation under a less onerous but equally disastrous procedure.

Granted, then, that confidence must continue if chaos is to be avoided, what can and should be done by forward looking citizens?

In the first place, there should be a national awakening as to the dangers of the situation. Every voter should be made "appropriation conscious." He should realize that the welfare of himself and his children is closely linked to a healthy financial condition of his government. And that campaign of education ought to be handled sensibly, and not in such fashion as to produce inflation belief, because widespread belief of the coming of inflation makes actual inflation inescapable.

In the second place, we ought to run the blind, the ignorant, and the extravagant leviens of taxes from every seat of government.

Every depression has bred its own peculiar panaceas and movements. The current one, in keeping with modern attainments in other fields, has probably produced the most colossal, gigantic stupendous type of superheterodyne, free-wheeling, air-conditioned demagogue in all history.

Hence the popularity of attacking those who have acquired any savings. Obviously, this appeals strongly to those who have not. Biblical admonition to the contrary notwithstanding, the science of coveting one's neighbor's wife, car, job or other possessions is still our leading industry. In fact many "covetors" have kept so busy at the job that the "covetees" are having to support them!

The size of one's acquisition has even

come under attack. As if the possession of an ill-gotten dollar were to be preferred to an honest "five-spot."

Honesty is not a matter of size or dimension, and crookedness flourishes as well in a back alley as in a panelled board room.

The urge to acquire dominates every normal person and it surges as irresistibly in the bosom of Oklahoma's poorest tenant farmer as beneath the tailored waistcoat of Wall Street's sleekest "captain of finance." This is a law of nature. It knows no sex nor boundary. It begins with a howl for more milk at the cradle and ends with an instruction for "a suitable monument" at the grave.

At that, we have a better government in most places than we deserve. Too many men are more interested in improving their golf score than their city hall. The biggest barnacles on the ship of good government are these so-called busy business men who are too busy to exercise the duties of citizenship. He pays his taxes and leaves the rest of the job up to others. He regards voting and jury duty as leaf-raking jobs for the unemployed.

The more intellectual, cultured, prominent type of citizen will break his leg, kill his mother-in-law, or leave town before he will submit to a few days' jury duty. And until the banker, the merchant, the educator, the doctor are all willing to do their bit toward the operation of government, I submit they are not entitled to criticize the fellows who do make the effort.

Last week Stuart Chase, an outstanding economist and incidentally a C.P.A., spoke in Tulsa. He made some startling observations. His theme was the economy of abundance of the future as contrasted to our economy of scarcity of the past. He predicted an ultimate abandonment of all metal as a currency base with a commodity dollar of some kind instead. He emphasized the changed conditions and new problems which this country never before had to face or solve. He predicts a modified distribution of wealth, retention of the capitalistic system with certain alterations, increasing government regulation and control over all industry, and prophesied many changes in our present financial system.

Many "hard money" bankers were pres-

ent to question and disagree but we came away thinking some new thoughts. The map of the world has changed too much, too many governments have fallen, too many outworn doctrines have been exploded to justify too much criticism of some of these new-school economists.

Admittedly, we have reached a period of transition. The fiscal policies of Alexander Hamilton and Salmon P. Chase were not devised for a settled nation which has substituted machinery for man-power, whose frontiers are exhausted, whose birth rate is declining, whose supply of most commodities exceeds the demand, and a third of whose people are dependent upon the other two-thirds because of economic maladjustment.

What the solution is probably no living person knows.

We have given the bankers and the brokers a free rein. They put on a fine party while it lasted, but we're still suffering from the hangover.

We gave the lawyers and the professors a free hand. They gave us N. R. A., the Bankhead bill, the corn-hog program and the "hot potato" remedies. Prejudice gave us T. V. A., ignorance our silver-purchase act, and political cowardice will give veterans a two-billion dollar Christmas present next January.

I come then to a plea to your patriotism.

No body of men is better qualified to administer to our political and economic ills than is the accountant.

You have been bred in a devotion to facts.

You are taught to analyze, to verify, and to think things through.

It is your business to question irregularity, and to expose carelessness and dishonesty. You are quick to scent the trail of fraud and corruption.

You have become the most trusted and indispensable cogs in the wheel of modern business.

Upon your work and your findings, directors declare or pass dividends, sell or consolidate, raise or lower wages, stay in business or close up shop.

Surely there is a wide field in the councils of government for men of such training and qualities. You might do better than

the rest have done. Surely you could do little worse!

Whether recent improvement is a lasting one or but another flash in the pan, only time can tell.

We do know that our ailments have by no means been thoroughly diagnosed nor the permanent cure yet devised.

The patient may survive and probably will, but every man of special training or ability owes a special duty at a time of unequalled need.

This country after six years of trial and error experiments, ranging all the way from doing nothing to doing too much, is still fighting the spectres of poverty, disease, unemployment, revolution and dictatorship.

Beneath all our troubles, perhaps the deepest of them all, is that pressure upon the pocket nerve which comes within your particular specialty.

Organized as you are, the accountants' societies could make their collective influence felt in every corner of the land in thirty days' time.

Too long have we depended upon the lawyer, the preacher and the editor to do our thinking for us. Dig up the facts, verify and analyze them, and let the people do their thinking for themselves.

Give to the state some of the talents you have given private industry, and the fruits of your efforts will be better government and an ennobling of your profession which can come only from self-sacrifice and public service.

An ambitious young man heard of the death of the junior partner of a big firm. Being full of self-confidence he hurried to the offices of the firm, whose senior partner was a friend of his father.

"How about taking your partner's place?" he asked.

"It's all right with me," said the senior partner, "if you can fix things with the undertaker."

"My papa's a bookkeeper," said little Albert proudly.

"Yes, I know it," replied little Dorothy. "He borrowed one from my papa."

—Log.

Seen In Published Financial Statements

by W. T. SUNLEY, C.P.A., Chicago, Illinois

MARKETABLE SECURITIES¹

Securities as Current Assets.—Securities owned by the reporting company are properly classified as current assets only if they are readily marketable and could without disturbance of the general corporate policy be used for the discharge of current liabilities.

Readily marketable securities include generally only those which are regularly dealt in on a securities exchange or for which there is a definite over-the-counter market. Occasionally there may be a security not subject to the above specifications, but nevertheless covered by a firm and bonafide offer of purchase by an outside party. Such a security also would be properly classified as current. For filing with the Federal Securities and Exchange Commission the rule is that there may be included in current assets "only securities having a ready market."²

Securities issued by and held in the treasury of the issuing corporation, securities of controlled and affiliated enterprises, and securities which are not readily marketable are includable as current assets only in those rare cases in which, in their form as securities and not converted into cash, they are intended to be used for the discharge of current liabilities included in the balance sheet. Even then they may be included only at values not in excess of the amounts of such liabilities.

These rules leave for proper classification as current assets only the readily marketable items among the securities of outside enterprises held by a dealer as stock-in-trade or held by any corporation as temporary investments of idle funds, to be disposed of when the funds are needed.

It will be noted that not all marketable securities are properly to be classified as

current assets. For example, certain marketable securities may be considered by a corporation as investments of a pension fund or a self-insurance fund. Even when there is no obligation to invest the fund or to maintain an existing investment, it is generally considered improper to classify the securities as current for the reason that it is not the intention to use them in the discharge of current liabilities. This principle is considered even more binding when the securities are displayed on the balance sheet as allocated to the fund.

When there is a legal or contractual obligation to maintain investments in a fund provided for certain contingencies or to meet debts other than current liabilities, opinion seems unanimous that the investments must not be treated as current assets.

Separation of Current and Non-Current Securities. — The differentiation of "current" securities from those which are non-current is meticulously observed by most corporations which issue printed reports. Westinghouse Electric & Manufacturing Company, for example, shows in current assets:

U. S. Government securities, at market or less	\$4,934,022
Other marketable securities, at market or less	4,390,796

and as a separate group between Current Assets and Fixed Assets:

INVESTMENTS, ADVANCES ETC., LESS RESERVES:

Wholly-owned companies not consolidated	\$13,349,306
Associated companies	17,190,718
Miscellaneous	3,190,899

Of the 1934 published balance sheets which show marketable securities and at the same time show a separation of current assets from other assets, less than 3% place the marketable securities outside the current group. The minority is deemed so small that discussion would be worth

¹All illustrations in this article are from 1934 published reports. To conserve space, money amounts are shown to the nearest dollar.

²Instruction Book for Form 10.

while only if one were acquainted with the motives which in each case prompted the deviation from normal.

Display of Market Value of Current Securities. — The Federal Securities and Exchange Commission gives the following instruction in reference to marketable securities:

State in the balance sheet the basis of determining the balance sheet amount and if not shown on the basis of current market quotations, state such aggregate amount parenthetically.³

The market value on a certain date is ordinarily considered to be the price at which the last sale on that date was made, or the bid price if no sale was made on that date. The rule that the market value must be disclosed when the securities are classed as current assets is one which has long been accepted for published statements, and almost no corporations now fail to follow it or at least to indicate that the carrying value represents approximately or does not exceed market value. Illustrating the manner in which the market value is indicated when the balance sheet amount is different therefrom, E. I. du Pont de Nemours & Company displays:

Marketable Securities, on basis of cost (quoted market value on December 31, 1934, \$31,019,828) \$30,816,771

Industrial Rayon Corporation uses an interesting phraseology to describe the market value:

U. S. Government securities (at cost) indicated market value \$2,360,868 .. \$2,353,375

P. Lorillard Company mentions the inclusion of the accrued interest with the investment value:

U. S. Government Bonds and Accrued Interest thereon (market value \$11,138,385) \$11,006,862

American Telephone and Telegraph Company shows:

Temporary Cash Investments \$183,946,602
Comprised, at December 31, 1934, of United States Government obligations. (Market value at that date \$185,669,000.)

Pittsburgh Plate Glass Company displays:

Other marketable securities, at lower of cost or market—Valuation based on market quotations, \$2,696,364... \$2,483,573

The above phrase, "valuation based on market quotations," seems to be growing in popularity. The implication is obvious: the amount shown therewith is a valuation determined in a certain manner, not asserted to be a true value as in some of the other expressions.

Mid-Continent Petroleum Corporation uses a more declaratory form:

United States Treasury Certificates (value based on market quotations, December 31, 1934, \$1,048,850).... \$1,034,895

The Lambert Company displays:

U. S. Treasury Notes 1938-39 at cost and interest (Market value \$622,883). \$616,789

Supervised Shares, Inc., displays:

Securities, at cost \$7,426,112
(Value at market quotations, \$7,444,152)

National Power & Light Company shows the face value as well as the book and market values:

\$638,500 Principal Amount United States Government, County, and Municipal Bonds (valuation at market quotations, \$673,907) \$665,139

In the case of an investment whose market value is generally known to approximate face, Armour and Company specifies the face and omits the market:

U. S. Government Treasury Notes (par value \$1,000,000)—at cost \$1,033,110

Briggs Manufacturing Company Displays:

U. S. Treasury bills at cost and approximate market value \$4,001,250

Liggett & Myers Tobacco Company shows the market value in reference to the group of marketable securities as a whole:

United States Government Bonds .. \$17,515,609
Municipal Bonds 5,630,889
Preferred Stocks 2,480,785

(Market Value December 31, 1934 \$26,173,827) \$25,627,283

Restrictions on Display at Book Value. —Like other current assets, securities classed as current must not be carried at more than their market value. In all the preceding illustrations the display was at

³Instruction Book for Form 10.

book value, with the market value given as subsidiary matter. If the market value is lower than the book value, the latter may not be used as the balance sheet amount, unless the excess of book value over the market value is only slight and the reporting company's financial condition indicates that the securities will not have to be sold to meet current obligations or carry on current operations and plans for current expansion. This exception is not to be applied in the case of a dealer in securities, nor in any case is it permissible to include securities in current assets at values materially in excess of market, even though the market value is stated. As always in deciding as to the materiality of such a difference, consideration should be given not only to the amount of the asset but also to the amount of the income and the surplus.

Kimberly-Clark Corporation, for example, shows a small excess of book value over market in one of its current investment captions:

U. S. Government securities (market value, \$533,842)—At cost	\$534,163
Other marketable securities (market value, \$61,928)—At cost	61,810

Marketable Securities at Lower of Cost or Market.—This principle has resulted in the practice of reporting marketable securities "at the lower of cost or market," a term which indicates that each individual security is carried at whichever (cost or market) is lower in respect to that security. This difference may be material. Assume the following case:

Item	Cost	Market	Lower
Security A	\$10,000	\$8,000	\$8,000
Security B	17,000	21,000	17,000
Security C	40,000	33,000	33,000
Totals	<u>\$67,000</u>	<u>\$62,000</u>	<u>\$58,000</u>

The "lower of cost or market" is \$58,000, not \$62,000. The latter amount is simply market value, another basis of display which will be discussed later herein. From the figures shown it should be obvious that to use the \$62,000 valuation and describe it as being "the lower of cost or market" constitutes a misstatement, otherwise what would "at market value" mean? A display at \$62,000 might be described

as being "at market, which in the aggregate is lower than cost," but not as being at the lower of cost or market.

Among the corporations which have adopted the policy of stating marketable securities at the lower of cost or market is Cannon Mills Company, which shows as a current asset:

Marketable securities (valued at lower of cost or market)	\$1,240,535
---	-------------

The Quaker Oats Company displays:

Government Securities	\$8,904,143
-----------------------------	-------------

with a footnote reading "at cost or market, whichever is lower." The two terms are considered exactly synonymous; the shorter seems to be preferred.

Display at Market.—As said, "securities included in current assets should not be valued at more than their current market values . . . In no case is it permissible to include securities in current assets at a value materially in excess of their market value, even though the market value is stated."⁴ Montgomery goes further, saying that "as the whole theory of temporary security holdings rests on their availability, they should be priced at their fair market price on the balance sheet date, irrespective of cost."⁵

In line with this opinion, some corporations (less than 15%) carry current securities at market, but the number which do so is decreasing in favor of the more conservative display at cost when that is lower than market. The prevailing opinion seems to be that the display at market is desirable only when that valuation is less than cost. Its use, of course, does not ordinarily require as heavy a write-down as the display at the lower of cost or market.

Among the corporations which show marketable securities at market is The Emporium Capwell Corporation:

Marketable Securities at Market Value	\$6,327
---------------------------------------	---------

Childs Company displays:

U. S. Home Owners Loan Corporation Bonds—(Par Value \$11,075)—at Market Value	\$10,715
---	----------

⁴Bell, "Accountants' Reports," third revised edition, p. 38.

⁵"Auditing Theory and Practice," fifth edition, p. 237. Italics are the present author's.

Carnation Company shows:

Bonds and stocks — at approximate
quoted values \$305,840

Bendix Aviation Corporation reports
similarly:

United States Government securities
and bonds and notes maturing in
1935—At approximate market (\$45,-
796 in escrow) \$3,183,609

The display by Minneapolis-Honeywell
Regulator Company is:

United States Government securities—
At market \$248,941
Other marketable securities—At market 54,114

The Eastern Rolling Mill Company
shows:

Marketable securities—valuation based
on market quotation \$74,250

Use of Valuation Reserve.—Whether securities are carried at market or at the lower of cost or market, if the market value of any of the securities is less than cost and the books of account are to be maintained in harmony with the statements, the carrying values of the depreciated securities must be reduced. It is not considered the best bookkeeping to adjust the asset account itself in recording fluctuations in market value, because such adjustments in the asset account make difficult the later determination of actual cost. Declines are best entered in a reserve account, which, being a valuation reserve, should be deducted on the asset side of the balance sheet.

Tide Water Associated Oil Company follows this practice:

United States Govern- ment and other market- able securities, at cost..	\$5,568,225	
Less—Reserve for reduc- tion to market quota- tions	367,651	\$5,200,574

The Babcock & Wilcox Company shows
“Other Marketable Securities—at Cost less
Reserve,” without stating the cost or the
amount of the reserve.

United States Steel Corporation, too,
uses valuation reserves:

Sundry Marketable Securities, less reserves, including \$53,913,952 U. S. Government securities (Total mar- ket value \$55,138,807)	\$54,625,723
--	--------------

*Unsustained Loss from Writing Invest-
ments Down.*—When the value of secur-
ities has declined below cost, the showing
at a reduced valuation requires taking a
loss into the accounts. Although this loss
is not consummated by a closed transac-
tion, the most conservative practice is to
treat it as a charge against current income,
setting it out separately. This is done by
Tide Water Associated Oil Company:

Provision for reduction of marketable securities to market quotations	\$362,267
Provision for unrealized loss on other investments	403,262

Similarly, The Wayne Pump Company
charges income with:

Provision for possible loss on investment	\$5,247
---	---------

*Unsustained Loss As a Charge Against
Surplus.*—In the early days of the Great
Depression the suggestion that declines in
the value of securities should be charged
against current earnings met with extreme
resistance. The objection may perhaps have
been justifiable in the light of the mental
attitude of the times. There was almost no
expectation that the market slump would
be a continuing thing, and it was not
thought that the “book losses” would be-
come actual through sales of the securities
at low prices.

Declines in the value of inventories, an-
other current asset whose valuation must
ordinarily not be above market, are almost
without exception charged against earnings,
but in the case of inventories it is ordinari-
ly expected that they will have to be dis-
posed of at the fallen prices. With this
concept that securities, however, would not
be sold until prices had recovered, the prac-
tice developed of charging write-downs
directly to Surplus. The charge to Surplus
was supported on the ground that the en-
try constituted an adjustment of earnings
of another than the current year, viz., of
the year in which the securities would ac-
tually be sold.

The Emporium Capwell Corporation
shows as a direct charge to surplus:

Adjustment of Reserve to value securities	\$677
---	-------

The Babcock & Wilcox Company
charges to Capital Surplus:⁶

⁶Lack of space prevents present discussion of
the propriety of using capital surplus (includ-
ing paid-in surplus) for this purpose.

Amount reserved against the value of investments in other companies ... \$500,000

Similarly, Copperweld Steel Company shows as charges against Paid-In Surplus:

Adjustment of book value of capital stock held in the treasury to par value \$261,309

Adjustment of investments in capital stocks of other companies to approximate market value 375,938

General Electric Company displays as a charge to surplus:

Revaluation of investments \$1,195,793

Unrealized Loss As a Deferred Charge.—The suggestion has been made that from an accounting standpoint the loss not sustained through a closed transaction might properly be classed as a deferred charge, but as such treatment certainly results in a present overstatement of net worth it has not met with approval.

When Market Is Above Cost.—The carrying of marketable securities at market even when that market is above cost, is justified by Montgomery⁷ on the theory that temporary investments represent a form of deposit of cash, and that the realizable value is the value at which cash and its equivalents should be carried. Illustrating a belief in this practical identity of cash and marketable securities, the Goodyear Tire and Rubber Company combines them into a sub-total which, instead of the separate items is carried into current assets:

Government securities at cost or market whichever is lower:		
Canadian Government	\$2,806,447	
United States Government	10,139,228	
Cash on hand, demand and time deposits	19,032,833	\$31,978,508

When a market in excess of cost is used as a basis for the balance sheet valuation of securities,

(1) there must be the strictest compliance with the rules as to what items may be classified as marketable securities, and

(2) the unrealized profit must not be taken into income or surplus, but should be treated as a deferred credit to income.

The suggestion that marketable securities may be written *up* to market is directly contrary to the rule that inventories—another current asset—must never be written up from cost to a higher market. The probable primary reason for the difference in treatment is that marketable securities, as said, are considered the present equivalent of cash, whereas inventories are ordinarily far from that. (It should be noted, however, that certain inventories, as those of miners of precious metals, are considered to be justifiably valued at net selling prices where sale at such prices "is assured without further effort."⁸)

If another period of wild market speculation comes, the practice of writing securities up may find reported security values rising to a point from which the crash will be heavy, but if the increment is kept in deferred credits no great harm will be done. A rule that security values could not be stated above cost would be no safeguard, because it could be beaten on a rising market by selling those whose prices had risen, taking the profits into earnings, and reinvesting the proceeds in other securities. Of course such a policy would for obvious reasons ordinarily be poor financing.

The point is reemphasized that, when market is above cost, it is considered improper to take the increment into earnings until realized by sale. The accepted procedure in such a case is to treat the increment as a deferred credit to income appearing on the liability side of the balance sheet. Such an item might be captioned "Excess of Market over Cost of Marketable Securities." Then when the profit is realized through sale the amount actually realized is taken into income in the year of sale.

For the same reason the entry of the unrealized profit as a direct credit to surplus is not looked upon with favor, and is definitely contrary to those statutes which specify that unrealized profits shall

⁷Loc. cit.

⁸"Accountants' Handbook," second edition, p. 422.

not be taken into earned surplus.

Later Fluctuations When Securities Have Been Written Down.—If securities have been written down by a credit to either the asset or a reserve account, and if at the next balance sheet date the securities are still unsold and the market has declined more, a further adjustment of the same kind should be made. If there has been a partial or full recovery it is considered proper to record the recovery as a partial reversal of the previous entry, i. e., as a credit to income if the decline was charged to income or as a credit to surplus if the decline was charged to surplus.

Illustrating the reversal of a previous surplus charge, Standard Brands Incorporated credits surplus with

Adjustment of unrealized depreciation	
on Securities	\$107,345

It is noted that this privilege of writing up to the extent of a loss previously taken is contrary to the approved treatment in the case of inventories. When inventories are written down to market, a later appreciation is not taken into income until realized by sale. For years this has been the rule of the Bureau of Internal Revenue, which prescribes that when the basis is cost or market, whichever is lower, an article written down to market at the end of one year should be further reduced if the market declines further, but should not be written up. If the market rises in the second year, "the item would be carried at the same value in the closing inventory as in the opening inventory."⁹ The exact wording of the Treasury regulation is:

Cost means: (1) In the case of merchandise on hand at the beginning of the taxable year, the inventory price of such goods.¹⁰

The difference in treatment is based on the difference in point of view toward marketable securities and inventories, as pointed out previously.

If the securities are being carried at market rather than at the lower cost of market, and the recovery exceeds the previous write-down, the excess over the reversal of the earlier entry becomes a deferred credit to income, as explained above.

⁹Montgomery, op. cit., p. 213.

¹⁰Article 22 (c)—3 of Regulations 86.

Later Fluctuations When Securities Have Been Written Up.—The practice in handling later fluctuations when securities have previously been written up to a market value higher than cost is harmonious with that followed when they have been written down to a reduced market. If, at the next balance sheet date the market price has declined, a full or partial reversal of the previous entry should be made. If the decline exceeds the previous appreciation, the amount of the excess must become the subject of such an entry as those described above for recording unsustained losses. If the market has risen still further, the additional appreciation may (when marketable securities are being reported at market) be recorded as a deferred credit to income.

Loss Sustained Through Sales.—Income should, at some time or other, be charged for losses sustained on the sale of securities. If a previous write-down to market has been against earnings, only the final adjustment becomes a charge or credit of the current year. If the previous write-down was to surplus it should be reversed in full (after allowing for any previous adjustments), and the actual loss charged to current earnings.

Ainsworth Manufacturing Corporation reports:

Other Income (after loss of \$3,919 from sale of United States obligations) ..	\$23,884
--	----------

Minneapolis-Honeywell Regulator Company charges against income, however, only the amount by which a loss actually sustained exceeds a previous charge to surplus:

Loss on sales of securities in excess of amounts provided by charges to surplus in prior years—Net	\$853
--	-------

The American Rolling Mill Company shows as an income charge:

Losses on securities—Net	\$61,318
--------------------------------	----------

Occasionally, however, one sees such losses charged to surplus rather than to income. Central States Electric Corporation, for example, shows as a deduction in its "consolidated surplus account":

Losses realized on sale of securities (net):
--

(computed on the basis of aver-

aged book value)	
550,000 shares Shenandoah Corpora-	
tion common stock sold in 1934	
under contract	\$5,829,121
Other securities (net)	80,032
	<hr/>
	\$5,909,153

Vick Financial Corporation carries on the asset side:

Investment in Securities (at cost,	
based on the practice of crediting	
sales at identified cost of certifi-	
cates sold; market value at clos-	
ing prices on December 31, 1934,	
\$5,395,712)	\$5,141,826

and on the liability side:

Reserve for Investment Depreciation—	
Balance of Amount Provided from	
Capital Surplus	\$828,456

It will be noted that on the basis of market quotations the reserve is not needed as a protection against the December 31, 1934, valuation, but a notation explains its use:

Profits and losses from sales of securities and commodities are not included in Income and Earned Surplus Accounts: sales of securities and commodities for the year resulted in a net loss of \$116,758 which has been charged to Reserve for Investment Depreciation provided from Capital Surplus.

Inasmuch as this reserve was provided out of surplus, the entry of profits and losses thereto is, in effect, an entry to surplus.

While the above principle that the full loss sustained on sale must be charged to earnings of some year is not always accepted, the objection being on the ground that the previous charge to surplus provided a reserve against which the actual loss could be debited, it is considered the best accounting. Its validity will be seen when there is realization that ignoring it would make it possible to take a profit into current earnings when a loss was actually suffered, if the sale, while still at less than cost, happened to be at a higher figure than the valuation used at the close of the previous year. To record a profit in such a case would seem to be inexcusable *unless the previous loss had been charged against earnings.*

If, however, the loss which is sustained is not an actual loss on the basis of cost, but is only a book loss from an appreciated value, the book loss should be charged to whatever account was credited with the appreciation. If there is a profit based on

actual cost, that profit may be taken into income, the charge again being to the account which was credited with the appreciation. The effect of this treatment will be to remove the appreciation from the accounts.

Profit on Sale.—A profit on sale is considered a proper credit to current income, with the proviso that if such profit is material in amount it should be separately disclosed. But to be credited to income such a profit must have as its basis actual cost, or cost written down in a previous charge to income, but never, as set forth above, a value written down in a charge to surplus. Such a profit is properly credited to current income only to the extent of the selling price over actual cost.

Libbey-Owens-Ford Glass Company sets forth separately:

Net profit on sale of securities	\$14,047
--	----------

Continental Oil Company calls attention to the fact that such a gain is not to be regularly expected:

EXTRAORDINARY ITEMS:

Profit on Sale of Securities	\$21,812
P. Lorillard Company adds to interest income:	

Profit on Sale of U. S. Government	
Bonds	\$119,134

Industrial Rayon Corporation includes in income:

Realization of previous write-down of	
U. S. Government securities to par	
value	\$40,840

The expression used is perhaps lacking in clarity, in that, since the securities were sold at more than par, the previous write-down was hardly "realized."

If the profit results from selling written-up securities for more than their appreciated value, whatever part of the profit above actual cost has not been previously taken into income may now be credited thereto. If the previous accounting has been properly conservative, this will be the entire difference between original cost and actual selling price.

Profit As a Surplus Credit.—When investments whose value has been written down by charges to surplus are sold for an amount in excess of the adjusted carrying value, the gain must be credited to sur-

plus to the full extent of the write-down charged thereto, before any part of that gain may properly be credited to current income.

American International Corporation treats as a credit to surplus:

Net amount realized in excess of book values, on Sales of Securities. Determined on the basis of market values established as of December 31, 1932, and/or subsequent costs \$825,630

Relative Popularity of Displays.—As pointed out earlier, the Federal Securities and Exchange Commission requires disclosure of the basis of valuation, and this rule is followed in twenty-six out of every twenty-seven examined published reports which showed marketable securities. One of the exceptions is National Steel Corporation, which displays simply:

Marketable Securities \$1,500,000

Standard Brands Incorporated does not show the market value or express any basis in the body of the statement, but carries the following notation:

In the above statement all securities included under Current Assets and General Insurance Fund are valued at the lower of Cost or Market.

Disclosure in a notation is considered entirely adequate where lack of space in the statement itself makes necessary the use of a notation.

Almost two-thirds of the corporations which specify the basis for valuation of their marketable securities carry them at cost. Of these, 90% state the market value and 10% do not, but, of the 10%, one-fifth say that the carrying value is less than market. While the author has prepared no definite statistics as to reports of the previous year, he is convinced that the 1934 reports examined show a large percentage increase in the number of corporations stating marketable securities at cost and disclosing the market value, with a relative decline in the use of other bases.

Less than fifteen per cent of the reports carry the marketable securities at market value, 9% at the lower of cost or market (of which slightly over half indicate the market value), and 5% at "cost less reserve" (most of which show the market value).

The remaining small percentage em-

ploys various terms to describe the basis. For example, American International Corporation says in a footnote:

Securities owned have been carried on the books since December 31, 1932, at market values established as of that date plus additions at cost, less the average book values of securities sold. On December 31, 1934, securities with a book value of \$17,764,776 had a valuation as shown by list of securities appended hereto, of \$18,119,173, or an appreciation of \$354,397.

Commercial Credit Company shows:

Sundry Marketable Securities, at or under market \$124,942

General Electric Company presents an unusual basis:

Marketable securities, at the lower of par or market \$49,282,533

The American Rolling Mill Company makes a distinction between the bases of foreign and domestic securities:

Marketable securities—Foreign securities at market value, domestic securities at cost (total market value, \$190,040) \$220,310

Five-sixths of all reports disclose the market value, irrespective of the basis of the balance sheet amount.

Arthur E. Cutforth, F.C.A.

Financial Digest, published in London, carries on its back page each week write-ups of prominent personages under the general heading "Financial and Industrial Who's Who." In the issue of Thursday, August 29, there was a sketch of Arthur Edwin Cutforth, F.C.A., partner in the firm of Deloitte, Plender, Griffiths and Co., Chartered Accountants. Mr. Cutforth is the president of the Institute of Chartered Accountants and in our June issue we presented some excerpts from one of his recent addresses. As illustrating the extent to which chartered accountants are utilized in England it is recorded that he was the Accountant Assessor to the Royal Commission on Coal Industry in 1925; member of Panel of Arbitrators under the Central Coal Mines Scheme in 1930; member of Reorganization Commission for Milk under Agricultural Marketing Act, 1931; Chairman of Milk Reorganization Commission for Great Britain, 1935; and member of Food Council since 1932.

Accounting Practice In the Smaller Communities*

by GEORGE W. SIMS, C.P.A., Fresno, California

IN suggesting the subject "Accounting Practice in the Smaller Communities," our Program Chairman probably considered its possibilities as a means of acquainting the accountants practicing in the larger cities with some of the problems of those practicing in the less populated districts. Naturally, both groups have many distinctive problems. On the other hand, each has much in common.

When asked to speak on this subject, I accepted the invitation with the thought uppermost that my paper would fit in between the more serious papers presented by our friends from San Francisco and Los Angeles somewhat in the nature of the oldtime theatrical olio. Most of you won't need the reminder that these olios were used as fillers, stuck in between longer acts of superior merit.

Having practiced in both large cities and smaller communities, it is my conclusion that numerous advantages and disadvantages pertain to both. Force of circumstance, environment, or temperamental inclination mostly determine where an individual shall carry on his life work and how resultful his efforts may be. It seems to me that the same set of rules apply pretty generally to success or failure in either the large or the small community.

It is probable that there are few practitioners in our larger cities who do not, at one time or another, find it necessary to pack their bags and leave the hustle and bustle of their home towns for a few days work in the quieter surroundings of the less populated areas. These trips are usually remembered most for the uncomfortable hotel accommodations encountered, the poor choice of good eating places, and the limited opportunities for an evening's entertainment. These conditions make doubly pleasurable the return

to the normal, if noisier, activity of the home city.

Likewise, there are few accountants practicing in the smaller communities today who do not occasionally find it necessary to journey to the larger cities for the purpose of settling some tax dispute, or sniping off an engagement. We of the hinterlands also experience upset routines on these trips away from home. However, the bustling activity of the big city is partially compensated for by the varied offerings of comfortable hotels and excellent eating places. The diversified forms of amusement found in the larger cities provide added attractions to such trips. Because of these things, I consider that we of the smaller communities have the advantage when traveling abroad.

While cities of the general size of Fresno are properly included in the small community classification, it should be borne in mind that there are countless smaller towns scattered throughout the country. In many of these will be found one or more public accountants engrossed in the process of earning a living—or trying to.

Unless he be a constant, conscientious student, as well as a hard worker in every day practice, there is danger of stagnation for the accountant practicing in the small community. Of course, this danger is not entirely limited to the less populated areas.

Several years ago, while traveling in Alaska, I ran across an accountant practicing in a little town with but a few hundred permanent population. He told me that he managed to make a fairly good living by combining with his practice the operation of a retail office equipment and supplies store. Despite his isolation, this chap displayed a most active and progressive interest in the problems of our profession. He maintained an office with an atmosphere as attractive and inviting as many found in the metropolitan areas. He had but two complaints. He deplored his

*Presented at mid-year convention of the California State Society of Certified Public Accountants held at Fresno November 2 and 3, 1935.

inability to meet with other members of the profession and complained most bitterly over the fact that nearly all his clients paid him in salmon, that being the chief local product. I think that most practitioners in the smaller communities find it necessary occasionally to exchange their services for commodities. These, at least, taste a lot better than a bad debt.

This limited opportunity for personal contact and friendly exchange of ideas with fellow practitioners, I consider the chief disadvantage of practice in the less populated areas. We hear the same complaint among members of the medical and legal professions. It so happens that this is a lack that can be, and is being, remedied to some extent. Meetings such as ours today, enable many to attend who might not otherwise find it practicable to do so. More and more, this plan of regional meetings is being adopted by State Societies of professional groups with gratifying results. By being offered the chance to participate in some of the Society's activities, the members in the outlying districts are encouraged to maintain a Society connection and the profession itself is correspondingly benefited by this broadening in the organization's field of usefulness.

It is probable that the practitioner in the smaller community becomes more intimately acquainted with, and, as a consequence, more firmly entrenched in his connections with a greater number of his clients, than is possible in the large city. There is less competition and the business, social, and club life is so intertwined as to make feasible sound and lasting friendships that prove mutually beneficial. This is possible, of course, in the larger cities, but, I think, to a considerably lesser degree.

As in the case of the country doctor, it is essential that the accountant practicing in the smaller community generalize rather than specialize. The rapid growth of modern business forces most big city practitioners to specialize, this being accomplished by the accountant limiting his practice to certain types of engagements, or by the employment of additional staff assistants qualified to serve in specialized fields.

Inasmuch as the control of the greater

portion of our nation's capital is centered in the larger cities, often desirable audits of firms located in his own community are lost to the practitioner in the small town, since such engagements are usually negotiated through the city headquarters. This is especially true of the utility groups and wholesale distributor organizations. I do not believe, however, that the average local accountant is as much disturbed over this condition as might be expected. To conduct these audits satisfactorily, requires the maintenance of larger staffs than can be normally employed profitably by the smaller community practitioner and it is not readily possible for him to pick up experienced assistants in the small towns.

Not infrequently, accountants from the large cities have contracted to make out-of-town audits for smaller fees than the resident accountant would care to undertake the engagement for. This seems a strange statement, but it is true nevertheless. The maintenance of a large staff is costly unless the men can be kept at work. Unfortunately, many firms have found it expedient to lower their customary rates in order that their staffs might be kept busy. The ultimate results of this thoughtless fee-scaling can well be guessed. The local accountant is severely criticized for charging higher rates than his big city competitor. Eventually when the facts become known, as they are bound to, the out-of-town accountant is in danger of losing some of his prestige. In the end, the entire profession suffers from the practice.

As a rule, the competent professional accountant, whether he practice in a large or small city, can consistently maintain his established rates without resorting to competitive price-cutting methods. I think that most price-cutting is caused by the desire for volume, the temptations for which seem to be just as great in the professions as in business. The fact that there is less competition among the accountants in the smaller communities can probably be attributed chiefly to the previously mentioned limited field of practice. Not being burdened with the expense attached to a large staff, the smaller community practitioner is not compelled to compete actively for volume. On the contrary, he has the best incentive for building for per-

manency.

Sometimes competition of the keenest sort does arise in these smaller communities, however. Usually such instances are in connection with bids for city or county audits. Audits of governmental groups seem, for some reason, to attract accountants of every description. Because of the customary bid system, so popular to this type of work, we here find the competitive spirit of accountants at its best—or should I say worst? Ethics is quite often a forgotten word and rivalry is keen. Ofttimes, in jousting for the favorable position, good friends become lifetime bitter enemies. I understand that these conditions apply pretty generally throughout the nation. They are the more regrettable in that in most such cases everyone is a loser, including, in many cases, the innocent client taxpayers.

Personal inquiries made of a number of practicing accountants in many sections of the country, verified my own experience that small city bankers, as a class, are considerably less convinced of the value of modern records and certified audits than are the bankers in the larger cities. This results, to some extent, from the fact that the small city banker is able to keep in much closer touch with the financial, business, and personal affairs of his borrowers. It is probable, too, that many are typical of the official who, when consulted concerning the proposed engagement of a C.P.A., frankly disapproved paying a "mere accountant" a per diem fee considerably larger than the daily remuneration received by himself as vice-president of his bank.

With the many new business, regulatory and tax laws, and the constantly increasing demand for more detailed statistical information, it should not be long before even the bank official of the smallest town, in the most remote section of the country, discovers what you and I have long since realized—the absolutely indispensable nature of the services we are so peculiarly equipped to render.

This rather old-fashioned attitude on the part of the country bankers reminds me of a story recently told by a lawyer friend. It relates to a one-time District Attorney, in office some fifty years ago,

and is allegedly true. This D. A. of the old school had ideas of his own on many subjects. In particular, he had a hearty dislike for detail and records of any sort. One year, he was invited before the Grand Jury and asked why he refused to keep any records of the funds handled through his office. "Gentlemen," he said, "if I don't keep any books, I'm guilty of a *misdemeanor*. If I kept them, I'd be guilty of a *felony*."

Even today, we who practice in the smaller communities, often find just as amusing instances of intentional and unintentional disregard of the rules and principles that mean so much to us. Exasperating as they may sometimes be, I sincerely believe that these experiences add materially to the interest of our work.

I would have presented but half a picture, were I to fail to mention what, to me, and to many fellow practitioners of the smaller communities throughout the country, represents one of the primary attractions of our field of practice. That is, the abundant opportunities afforded us to relax and secure pleasure from the many playgrounds that Mother Nature has made more accessible to those who live in the less thickly populated areas. I fear that most of us avail ourselves all too frequently of their constant invitation to enjoy a few days hunting, fishing, or just plain loafing. Obviously, these same opportunities are open to our big city brothers, but being less accessible are not so often availed of by them.

Unquestionably, the fast moving tempo of the big city life is damaging to the nerves. Life moves along more restfully in the smaller communities. I think this makes for a better appreciation of the fundamental values of living. We find more time for our families, our friends, and our hobbies.

There is much more that could be said on this subject. It has not been my intent to weigh advantages against disadvantages . . . nor to prove, or disprove, anything. I believe that all of us possess a natural capacity for finding real happiness and satisfaction wherever we may live. This is a fortunate human trait. It is an endowment that can be profitably cultivated by us all.

The Social Security Act

by ROY KATZ, C.P.A., New York City

THIS article is prepared in an endeavor to answer the four questions with which Mr. Ellis concludes his article "The Social Security Act" in the November issue of *THE CERTIFIED PUBLIC ACCOUNTANT*.

To understand what the writer had in mind, one must read the paragraph immediately preceding the questions. There, Mr. Ellis argues that the act was drawn as a political expedient without regard to informed advice or the experience of European countries with like relief measures. He then states that the act must be amended before it goes into operation and in doing so a correct answer to the four questions he propounds must be had.

The issue raised, therefore, is not whether the act must be amended. In that, almost everyone who has given any thought whatsoever to the subject will agree with him. The problem is whether the act must be altered with respect to its underlying theory. With reference to this, Mr. Ellis believes that it should whereas I am forced to take a contrary view.

I presume that my answers to his questions will differ substantially from those which Mr. Ellis would give. I believe that the basic theory upon which the Social Security Plan has been erected is the correct theory whereas Mr. Ellis probably feels that fundamentally the law must be rewritten.

The first question raises the issue as to whether the basis of the Social Security Act shall be actuarial or social.

What I understand him to mean by this question is whether the theory underlying Social Security shall be based upon mathematical certainties or whether taxes collected shall be required only to the extent of the benefits to be paid and limited to the needs for relief of the applicant.

It must be remembered that while the proceeds of the three tax plans incorporated in the act are not earmarked for any specific purpose, the bases of the taxes clearly indicate that two of these taxes are

intended to cover the cost of old age benefits, and the third to cover the contributions to be made to the states representing the cost of administration of unemployment insurance.

It, therefore, must follow that the amount raised by taxation under the act is for certain definite purposes. It may be sufficient, insufficient or excessive. Only the future will tell and an amendment either reducing or increasing the rate of tax will not be basic.

We now come to the question of whether the amounts to be disbursed for relief are based upon a correct theory. The law provides that the government shall set aside each year an amount calculated according to established actuarial principles sufficient to make the payments for old age benefits required under the law. Old age benefits, therefore, are payments to which an individual becomes entitled by reason of having paid therefor and not as a matter of charity. A worker having paid these taxes during his working career and having arrived at the age of 65 and retired from employment, becomes entitled to this annuity. These payments are no different than those an individual receives from an insurance company. The worker need not prove need in order to receive these payments. He does not lose his self-respect because of the receipt by him of these benefits. It is inconceivable that any individual can prefer that the aged should become the objects of charity when their ability to earn sufficient for their own support shall have ceased. It is surely much to be preferred that a worker during his lifetime should be compelled to make the necessary contributions in order that he may be self-supporting when his working days are over.

A mathematical basis for unemployment insurance is according to general opinion, impossible, first because there are no statistics of unemployment available, and secondly, because there is no certainty with

respect to unemployment. So many different elements enter into unemployment that no rule can be laid down from which a table of the probability of unemployment can be prepared. For that reason the experience of other countries where unemployment insurance has been in effect have been carefully studied and the law written reflects the result of that study. No one will attempt to argue that Unemployment Insurance will provide complete protection. It is not expected to do so. It is intended merely to bridge the gap between loss of employment and re-employment, or in the case of frozen industries, it is intended to provide the unemployed worker with benefits during the period when he is qualifying himself to enter employment in some other industry.

If the unemployment continues beyond the benefit period, then it is expected that the government will step in with public works and in that way provide necessary employment, and if that be insufficient the worker will have resort to relief from the government. In order to do this, he will be required to prove need for the relief.

Unemployment insurance benefits are not to be provided as a relief measure but something to which the worker is entitled by reason of contributions made by his employer in his behalf. For the period during which the worker receives these benefits he need not feel that he is an object of charity. It is a form of insurance bought and paid for.

One very important consideration with respect to unemployment insurance which must not be lost sight of is that the receipt by the worker of his benefit payments and its expenditure, especially at a time when a depression is commencing, will have the very useful effect of leveling the peaks and valleys of economic conditions.

It seems, therefore, that from every viewpoint the fundamental theory upon which unemployment insurance and old age benefits have been established is to be preferred over any other theory thus far suggested.

The second question deals with the matter of the cost of this relief and who shall bear it.

As has been stated, unemployment insurance and old age benefits as provided

for in the Social Security Act are benefits which the worker should be entitled to as a matter of right. Therefore, the worker should properly make some contribution. To put the entire cost upon him would not be equitable since the employer also derives some benefit. When he is forced to shut down he need not worry about losing his labor and being unable to obtain it when he again begins operations. The employer need not suffer the pangs of conscience when he is forced to discharge workers whose usefulness has terminated by reason of advanced age. The employer can easily bear the burden of this additional cost by including it in the cost of his product and if every other employer is required to do the same he cannot object since no other employer is obtaining an advantage over him.

Whether the Federal Government or the State Government should make any contributions is something regarding which there is a wide divergence of opinion. My own theory is that neither ought to do so since as has been discussed above, the government, Federal and State, must of necessity assume the burden of taking care of the worker either during his unemployment or after he has retired from employment because of old age, if necessity requires.

The third question inquires whether unemployment insurance and old age benefits should be extended to all persons or merely to those whose personal resources have been exhausted. The answer to this can be found in the argument under the first question. In order to maintain the self-respect of workers upon whom unemployment may fall through no fault of their own, or who by reason of advanced age retire from regular employment, they should as a matter of right have these benefits. If they are to be his as a matter of right, his personal resources and whether or not they have been exhausted cannot be a condition to the receipt of benefits.

When an individual purchases an annuity and pays therefor over a number of years, the insurance company does not ask him whether his personal resources have been exhausted before making the stipulated payments.

The fourth question has reference to

the agency which is to administer this relief, whether by the State, by the Federal Government, by industry or by the workers.

Because of the tremendous amounts involved, it is inconceivable that the fund could be administered successfully either by workers or by industry. It is probably true that the successful administration of a fund of perhaps 15 to 25 billion dollars could not be successfully administered by the states even though uniform action on the part of all the states could be had. The matter then must certainly be left to the Federal Government where the law provides it shall be left.

Financial transactions involving perhaps 3 to 4 billion dollars a year can be handled successfully only by the Federal Government since otherwise the money market and the financial market would always be subject to the upheaval resulting from an

attempt to invest funds or liquidate securities in these tremendous sums.

Its most optimistic friends do not claim that the Social Security Plan as enacted is satisfactory. It is far from that. It will require amendments as defects of detail or administration become evident. We may hope that ultimately a plan will be evolved which will function successfully. In order to accomplish this, two things are necessary. (1) Employers and workers, as those most vitally interested, should carefully study the operation of the scheme; and (2) the administration of the program should be kept as far as possible from political influence.

If anything can destroy the plan it will be the attempt to make of this Social Security program a stepping stone from which politicians shall seek to achieve political preferment.

Usefulness of Organization for C. P. A's

by JOSEPH THIEBERG, C.P.A., Paterson, N. J.

HENRY CLAY, that great American Statesman, uttered an epigram about Government which clearly exemplifies the purpose of existence of an organization such as the New Jersey Society of Certified Public Accountants. He stated that "Government is a trust and the officers of the Government are trustees and both the trust and the trustees are created for the benefit of the people."

In paraphrasing this famous epigram, it may be stated that this organization is a trust and its officers are trustees and that both this trust and its trustees are created for the benefit of the members of the accounting profession comprising this organization. This means that this organization or any similar organization created for the same purpose is carrying the onus or burden of every non-member of this profession for his own protection so that the benefits derived through the efforts of the organization accrue to him as well as to its members.

Organization is the cart-horse of prog-

ress, whether it be organization of labor, business, beneficent societies, religious, political or professional groups. Philosophically, everything that happens on this earth depends directly on everything else that happens there. Ralph Waldo Emerson in his famous "Essay on Compensation" says: "Cause and effect, means and ends, seed and fruit, cannot be severed; for the effect already blooms in the cause, the end preexists in the means, the fruit in the seed."

The good things or bad things that happen are each the product of all extant conditions. The slaves in the South were not set free without the assistance of every liberal man in the United States. The present Italo-Ethiopian conflict will continue or cease depending upon economic pressure that may be exerted one way or the other. So it is with the accounting profession—the good or bad things that happen to it will be directly dependent upon the unity of members composing it through organization which is the torch of enlightenment

for the accounting profession. The effect of such enlightenment on a disorganized body does not serve as a deterrent but rather as a clarifier. It makes for lucidity and reciprocally the effect of a disorganized body on enlightenment serves to make that enlightenment grow dim and prevents lucidity.

Organization moulds public sentiment expressive of its will. Abraham Lincoln in one of the Douglas Debates said in part: "With public sentiment nothing can fail; without it nothing can succeed; consequently, he who moulds public sentiment goes deeper than he who enacts statutes or pronounces decisions." The organization that would mould public sentiment in this changing world of ours must explore the profession's needs and ambitions, and interpret them in the light of events with human understanding. The public is both receptive and responsive and thus prepared for moulding.

The devotion of an organization to simple and laudable objects makes for its success. Shoulder to shoulder, for a common cause, the members of any C.P.A. Society serve as a protection for all the C.P.A.'s in practice and also serve to enhance our profession. Such unity will go a long way to build up a bulwark of solidarity and prestige for the profession.

We usually conceive of cooperation in altruism or disinterested benevolence, and because we believe and indeed we know that human nature is selfish, we pronounce altruism a futile dream and say that extensive cooperation is therefore impossible. Yet the most effective cooperations spring up not out of altruism but from enlightened self-interest.

It is not altruism but a recognition of the bonds of interest that causes a professional body of men to affiliate. C.P.A. Societies have not been formed because of mental or emotional affinities between the members composing same but rather because they afford the mutual protection of interest which the members enjoy in common. We may belong to different religious groups or fraternal societies and we may adhere to the principles of opposite political parties, but we must unequivocally recognize that there is one common bond of interest by supporting our professional

societies because they represent the accounting profession, your profession and mine, and they are the only means of promoting unity, enhancement and prestige.

It therefore necessarily follows that the strength and solidarity of our professional societies lie in marshalling together all our forces through enrollment of non-members who are otherwise qualified for membership in the various organizations. The future of our professional societies depends upon the application of this familiar monumentalized principle—what is done for one is done for all. The organization is your mouthpiece, it retains your power of speech which you have lost. Organization dedicates itself to protect you and your profession. Will you dedicate yourself to protect it?

What Is a Room?

From the *Horwath Hotel Accountant* we note the following comment on "What Is a Room?"

How many rooms are there in your hotel? Before this question can be answered a room must be defined. Is a kitchenette a room? Is an alcove a room? Is a boudoir a room? We should like to have our readers suggest a practical definition.

The NRA attempted among other things to define a room and the then acting assistant deputy administrator in charge of hotels wrote one of the state code authorities on February 1, 1934, as follows:

"A room in a hotel is any space surrounded by at least three walls, which is offered to a guest for lodging."

So we see that officially a room must be "surrounded" by at least three walls. Thus triangular rooms pass the test, but circular rooms apparently do not, for where are the three walls? A space having three walls but open on one side would not qualify, for it is not *surrounded* by three walls. Whether any of the "rooms" have floors or ceilings does not seem to be important.

"Egotism is the anaesthetic that nature gives to deaden the pain of being a fool."

—Gillilan.

Capital and Labor in Ancient Rome*

by HERMAN HERWOOD, C.P.A., New York City

THE recognition of the rights of private property made possible the development of business. The Romans were the creators of the great system of credit. The Roman jurists of the second and third centuries worked out the complete judicial principles of credit now observed.

The Romans also instituted the system called banking. At an early period, Rome began to gain an ascendancy over the neighboring towns. Strangers flocked to her doors and brought their coins with them. The government, realizing trade possibilities, built stalls around the Forum, and let them out to private persons for purposes of exchanging the money. Later, individuals began to deposit and lend their money for which they received interest. The Romans then invented checks and bills of exchange.

The Romans being systematic in their business dealings, kept regular books of account. The proper recording of business transactions was made compulsory in the Roman literal or written contract. The validity of the contract was made possible by an entry on the debit side of the ledger. The books employed were the day book and ledger. Every single item of receipt and disbursement, after being entered in the waste or day book, was transferred at certain periods to the ledger.

The high degree of economic development can be further gleaned from the existence of business organizations which handled trade. Individuals, temporary partnerships or joint ventures, partnerships and corporations, comprised the industrial group. Fraud on creditors was prevented at Roman law by several actions. The Romans had a well worked-out system, which we might call one of bankruptcy. Voluntary bankruptcy was encouraged. This is in accordance with one of the two principal purposes of modern bankruptcy statutes. The other one, the discharging of an unfortunate debtor, was not per-

mitted. In contradistinction to present laws, the advisability of protecting creditors was paramount to that of the unlucky or dishonest individual.

With a sound credit structure, proper business organisms and the scientific administration of the law, domestic and foreign trading attained great heights. Roman traders were numerous and the profits were enormous. In the retail trade, 50 per cent was the usual gain. The shopkeepers were the masters of the art of window dressing. Caveat emptor, "let the purchaser take care," is a famous legal maxim since Rome.

The arteries of commerce were furnished by the State. The main lines of State roads constituted a system of 82,200 kilometers. Bridges were built and some of them were remarkable feats of engineering skill. River navigation was improved through the construction of canals.

The great demand for new markets made necessary the expenditure of vast sums of money for the improvement and enlargement of harbors. Larger light-houses, beacons and sailing marks multiplied. Warehouses were constructed which served as storing points for grain, spices and other commodities. In some, sealable rooms, closets, or boxes could be rented for the safekeeping of precious jewelry and valuable litigated objects. State slaves and free men administered them under stern supervision.

Trading classes became wealthy and influential. Corporations and the organization of capital were closely bound up with imperialism. Corporations loaned money to the government for the purposes of war. They also collected taxes, constructed public works and leased mines belonging to the State. Strange as it may seem, great trusts flourished, and in common with our own past, they had to contend with the oil trust. It was an olive oil trust, however.

The combines were unmerciful. Diocletian through his edicts attempted to control the cost of living. It was unlawful

*Written for *The Wall Street Review*.

for a person to charge more for his goods than the amount specified in the law.

Illustrative of prevailing economic conditions are the following tables showing maximum prices for articles of food and wages:

	301 A.D. Prices in Cents
Wheat, per bushel.....	35.6
Rye, per bushel.....	45.0
Beans, per bushel.....	45.9
Barley, per bushel.....	74.5
Vinegar, per qt.....	4.3
Fresh Pork, per lb.....	7.3
Beef, per lb.....	4.9
Mutton, per lb.....	4.9
Ham, per lb.....	12.0
Fowls, per pair.....	26.0
Butter, per lb.....	9.8
Fish, river, fresh, per lb.....	7.3
Fish, salt, per lb.....	8.3
Cheese, per lb.....	7.3
Eggs, per doz.....	5.1
Milk, sheep's, per qt.....	6.0

	301 A.D. Prices in Cents With Board
Wages Per Day	
Unskilled workman.....	10.8
Bricklayer.....	21.6
Carpenter.....	21.6
Stone Mason.....	21.6
Painter.....	32.4
Blacksmith.....	21.6
Shipbuilder.....	21.26

From "The Common People of Ancient Rome,"
by F. F. Abbott.

This attempt at price fixing, being an economic fallacy, was a failure, and when sixty years later the Emperor Julian made a similar attempt, the results were disastrous, as the holders of grain hoarded their stocks.

The attempt to control the price of wages brings to light the fact that labor was organized into guilds. They resembled our trades unions to the extent that these groups consisted of men working in the same trade. They differed from the guilds of England and the modern union to the extent that they made no attempt to improve working conditions, develop skill and increase the wages. They existed primarily as do our benevolent fraternal orders, for purposes of mutual aid and burial benefits.

Labor then was not a dominant factor in the economic firmament of Rome, due no doubt to the existence of slavery. Capital, on the other hand, was King. The relationship of capital, the government and

political leaders was very close. The sins of war were furnished by syndicates of bankers. Corporations made contributions to all major political parties, showing no favoritism.

The influence of the corporations at the polls was far-reaching. This was due to the fact that their shares were widely held by the voters. Nearly every citizen owned shares in some joint stock company. Poor crops, uprisings, or a strike in the Spanish mines, would cause a deflation of stock values.

The Forum was the ancient Wall Street, where matters of money were transacted. The probabilities are that quotations of stocks were shown from posts. The diffusion of public ownership in stocks bears resemblance to our activity in the stock markets.

Years of unbated industrial activity bring as their aftermath the usual period of depression. The Roman citizens spent their time in luxury, parasitically consuming the products of the Provinces. The sturdiness of the early days disappeared. Coupled with this unfortunate situation was the fiscal inaptitude of the ruling bodies. Receipts from direct taxes, which comprised charges on land, poll tax, capitation, income, tax tenths and tithes, and indirect taxes, which included impositions on inheritances, customs, duty, sales and tariffs, were insufficient for wars and recurring expenditures.

The capital of the nation was being exhausted and there was not enough for adequate defense. With the disappearance of the mercenaries, the incoming hordes of barbarians found no opposition. A civilization that gave the world a great culture, a system of scientific laws and business methods still utilized by existing nations, disappeared.

NO SAVING

Patient—"But cannot you find what ails me without operating?"

Surgeon—"Of course, but an autopsy would cost you almost as much."

Success in life depends not only on your own ability but also upon your competitors' shortcomings.

Education Committee Report

(OKLAHOMA STATE SOCIETY)

The Educational Committee reports that during the fiscal year just ended there has been no collective activity by the committee as a whole. However, many good programs of an educational nature have been arranged by the local chapters whenever material and talent were available. These programs have centered around discussions of current developments affecting the profession and have created considerable interest which, naturally, has resulted in increased attendance.

The committee believes that the society should adopt some well-rounded plan of general educational activity which, not only will reach the individual members within the limits of chapter meetings, but will extend to outside activities in which the profession should naturally be interested. Accordingly, the committee has formulated the following general plan of educational activity which it submits for your consideration.

Suggested General Plan of Activity

The committee believes that the educational program of the society should be broad enough to include some activity in each of the four following directions:

1. The encouragement of and cooperation with worthy and promising students in the schools of business administration of the major universities of the State.
2. A well-integrated and diversified educational program for the weekly luncheons.
3. A dignified effort to educate the public to a full appreciation of the accounting profession.
4. An attempt to persuade the major universities of the State to adopt a course of study leading to the degree of Bachelor of Accounting Science, similar in plan to that leading to the degree of Bachelor of Law, with the provision for the degree of Master of Accounting Science upon the completion of further academic work.

Suggestions for Carrying Out the General Plan

While the committee recognizes the local chapters as the logical medium through which most of the general plan should be executed, it offers the following suggestions, not as being all-inclusive, but solely as a nucleus of ideas which can be expanded or narrowed to harmonize with their views. Obviously, the most able and aggressive members of the local chapters should constitute the chapter educational committee.

- I. The Encouragement of and Cooperation with Worthy and Promising Students in the Schools of Business Administration in the Major Universities of the State.

The committee believes that this work should be divided as follows: The Tulsa chapter should sponsor those students in the Oklahoma A. & M. College and the University of Tulsa; the Oklahoma City chapter should sponsor those in Oklahoma University and Oklahoma City University. This sponsorship should take the following form:

1. Frequent visits to and professional talks before the members of accounting societies.
2. The observance of Students' Day probably at one meeting each quarter to which would be invited selected students and their instructor.
3. The supplying of business and professional journals to those groups interested, where they are not already available.
4. The awarding of a medal or some other form of recognition annually to the outstanding senior in the school of business administration.
5. Helpful suggestions with reference to the curriculum, provided of course, that such suggestions are invited.
- II. A Well-Integrated and Diversified Educational Program for the Weekly Luncheons.

The committee believes that it is the responsibility of the society to foster a collective interest in the problems arising through changing conditions in the commercial and industrial world, as well as those problems growing out of new and increased taxes, and the creation of Federal boards and commissions. It suggests that the weekly programs center around the discussion of these subjects. It also urges a generous review of current professional articles as well as text books of recognized accounting authorities.

The committee believes also that many of the members would be interested in a review occasionally of certain academic subjects which blend so naturally with the accounting profession, namely; English Usage, Mathematics of Accounting, Economics, and Government, especially those phases of government which pertain to governmental finance and mechanics of legislation. In view of the proximity of good universities, it should not be hard to secure speakers on these subjects and they have the advantage of varying programs which would otherwise be consistently professional. The committee also suggests that a spirited review of Parliamentary Law, occasionally, or perhaps the exchange of speakers between the Tulsa and Oklahoma City chapters would add zest to the programs.

Since there are some problems which are common to both lawyers and accountants, it is suggested that a joint meeting be held once a year to promote a better understanding of each other. If this cannot be arranged, then it might be possible to exchange speakers with them on such subjects as "The Accountant in Court," "The Lawyer and the Accountant," etc.

While the committee favors the suggestion that a central library be established for the use of accountants, it believes that there are too many difficulties in the way of carrying out this suggestion.

III. A Dignified Effort to Educate the Public to a Full Appreciation of the Accounting Profession.

With reference to this part of the program, the committee realizes that the very nature of the profession precludes anything other than informal and indirect

channels of approach. It suggests the four following possibilities:

1. A more active participation by accountants in civic affairs and civic organizations, not with the selfish view of obtaining business, but to demonstrate to the community the general efficiency and high calibre of the professional accountant.
 2. Once a year arrange to have the Chamber of Commerce invite some officer of The American Society or the American Institute to be the guest speaker at the weekly forum luncheon. Outstanding men in any field are the type of men sought after and welcomed by the Chamber as speakers; and unquestionably they would create an impression favorable to the profession.
 3. Maintain close contacts with the banking fraternity, although the committee believes that banks, as a whole, have not yet exerted the full force of their influence in behalf of the accounting profession. This may be entirely the fault of the accountant.
 4. Keep the local newspapers fully informed of the guest speakers at the weekly luncheons and the subjects to be discussed.
- IV. To Attempt to Persuade the Major Universities to Prescribe Courses Leading to the Degrees of Bachelor of Accounting Science and Master of Accounting Science.

Although the cultural background of the majority of accountants is on a level with that of the other professions, there seems to be a tendency on the part of the other professions, particularly the profession of law, to regard us as being beneath their level in the matter of academic attainments. The committee believes that this unfounded belief could be removed through the adoption of courses leading to the specific degree of Bachelor of Accounting Science, under a plan similar to those courses leading to the degree of Bachelor of Law. Further degrees could be obtained through the completion of advanced courses. Holders of these degrees could then become entitled to practice as Certified Public Accountants by passing a prescribed State examination in the same manner as holders of law degrees become entitled to practice

by passing the State Bar examination. As all the courses essential to such degree are now being offered in the State Universities, the committee does not believe that any material rearrangement would have to be made in the university curriculum.

By this, the committee does not intend to exclude those candidates who do not hold academic degrees, since the law profession is open to many whose preparation has been outside a recognized law school. It merely suggests that this plan would raise our profession to the same level as

that of the other professions in the matter of academic preliminaries.

In conclusion, the committee does not claim that the foregoing plan is entirely original. Many helpful suggestions have been received and parts of the plan have already been undertaken to a certain extent. All that it has done is to reduce to concrete form some of the ideas already expressed and to supplement them with other ideas necessary to complete a well-rounded program.

The Intellectualist vs. The Materialist

by MAURICE V. GENEZ, C.P.A., New York City

THE accounting profession has certainly reached a point, by this time, where it may be definitely established whether some of the individuals professing to be members of it are, in reality, professional men or just racketeers.

If accountancy is, indeed, a profession,—and a goodly number of us feel that it is,—then there should be a yardstick with which it is possible to measure the capabilities of those professing to practice it.

That yardstick we would presume to be something of a gauge reflecting the abilities of the accountant based upon the results which he discloses on the completion of engagements.

To an observing nature it is quite probable that the perusal of many reports prepared by accountants would lead him to the conclusion that there exists in the profession, today, two distinct types of individuals:

1.—The Intellectualist.

2.—The Materialist.

The *intellectualist* might be described as the “thinker.” He is the individual who is always in the realm of possible motives behind the figures; who has insight, foresight,—brains. When delving into a problem, no matter how intricate, he never loses his way and always comes through to an intelligent conclusion.

He is the expensive model of an automobile: well-built, comfortable and trustworthy. He always gets there: never loses his direction.

The *materialist* might be described as a “machine.” He knows his debits and credits and when he completes an engagement, and finds that everything is in balance, he gets a “kick” out of it. Nothing could possibly be wrong for, don’t you see, everything is *okey dokey*. Poor simp!

He is the cheap model of an automobile, with the flashy exterior, but no “guts”; the simple machine that has been geared to do this or that the same way many times over; the *production man*.

My, can’t he turn out audits. But they *mean nothing*. If you were to stick him with a real, intelligent question in regard to his own work, he would probably tell you to quit talking in riddles.

Opposed to the intellectualist the materialist never really knows where he stands. He is always praying to the Lord that the thing balances so that he may continue on to the next spasm.

The existence of the *materialist* in the profession, today, is responsible in a large measure for some of the losses suffered by insurance companies under indemnity and/or fidelity bond coverage. These losses are terrific and it is not an unfair statement to state that a large portion of them could absolutely be avoided.

Insofar as the accounting profession is concerned, the *intellectualist* raises the profession high in the esteem of those with whom he comes in contact; the *materialist* brings the profession down to the level of a *racket* and gnaws at its very foundations.

TALKING SHOP

A DEPARTMENT CONDUCTED BY LEWIS GLUICK, C.P.A., New York

Roland Keyes of Detroit sends us the subjoined poem of Edgar Guest's which appeared on August 2 in the *Free Press*.

THE BOY WHO COULDN'T ADD

I wasn't made for ledger books! I tried them once, but, oh,
The figures all went dancing up and down the lengthy row,
The fours and fives were madcaps and the eights and nines were glum,
And every time I ran them down I got a different sum,
And soon the grave accountant said: "It's plain as plain can be
You have no head for figures and you are no help to me."

The man who wrote them in the book had such a steady hand,
In single file and double file the numbers neat would stand,
The twos and threes obeyed his will; in ordered columns trim
Like little boys who sing in choirs the figures seemed to him,
But when the ledger came my way, like imps with ghoulish glee,
They danced and skipped the pages round and noses thumbed at me.

I tried the very best I could to keep them all in line;
But seven would smirk in such a way I thought that it was nine.
The fives would up and run away. Although I did my best
I couldn't do a thing with them when they were four abreast,
And so the grave accountant said: "I'm sorry for you, lad,
You'll never make a business man until you learn to add."

Elton Loucks was in New York recently. We thought that Iowa was where

the tall corn grew, but this Nebraska boy is plenty altitudinous.

Lt. Com. M. T. Scanlan of the Navy contributes one of his auditing experiences. An enlisted men's club, of which a chaplain, was manager, was the subject of investigation. And Mr. Scanlan says that he has never seen any one so surprised as the good reverend when a shortage of several thousand dollars was disclosed. Well, any C.P.A. can tell stories to match. There are some people in this world who are so honest themselves that they cannot even suspect others. The Kid wisecracks that it's stupidity; but we can't agree.

Put a Xmas seal not only on every letter you send, but every check you write this month.

TAXES

C.P.A.'s who figured, with varying success in 33 BTA are A. S. French (No. 36), Tom Carey (No. 29), J. L. Elliot (No. 26), Wm. D. Bonthron (No. 25) and E. P. Adams (No. 13). The Seidman brothers were in a unique case (No. 19) in which, exactly 18 months to the day after the Board handed down a rule 50 (30 BTA 236) a modification of the ruling was ordered.

The case of Tomson & Co. CCA 3rd, October 10, presented a curious condition. "Before the BTA no evidence was introduced by the government. The taxpayer called 5 experienced witnesses who testified the value of the brand was from \$900,000 to \$1,000,000. We find no evidence whatever to support the Board's value of \$525,000. The Board's findings must be set aside as unwarranted and determination of the Commissioner 'approved.'" It may be good law, but it doesn't make sense. Five witnesses to

none; no allegation of perjury or even incompetence. Yet the Board gets another value; and the Commissioner still another. An article that we wish Mr. Springer had space to reprint in its entirety is "Federal Taxes and the Railroads" which appeared in the November number of *The Rail*. Another, even better one urging the adoption of the natural business year appeared in the N. Y. *Times* for November tenth. The abolition of a "tax season" would be an unmitigated blessing for both C.P.A.'s and their clients.

BUY CHRISTMAS SEALS

A friendly reader advises us to tell others that merely going to meetings is not sufficient. The meeting notices must be carefully read. "I am" he says "one of those members who is always being lauded by presiding officers. Never miss a meeting. When I get a notice, I put the date down immediately. And stop there. Never bother to find out what is on the program. Time enough when I get there. But recently I learned better. There was a meeting devoted to 'Cooperation between C.P.A.'s and Lawyers.' It would have been money in my pocket had I realized it in time, and invited a certain member of the bar to be my guest. Then came another at which corporation reorganization was discussed. And a man who specializes in that field, and whose good will I have been energetically cultivating wasn't there, because I didn't ask him. He told me he would surely have come if I had. So from now on I read more than the date on the notices."

We frequently receive specimens of unethical practice, but as we hope you have noted, we rarely run them. For one thing, they are not, unfortunately, news. And for another, the place to send them is the controlling authority for the State. But when a member of a State board sends us one, because he got a hearty laugh out of it, then we can use it. Here it is:

"Complainant's client was solicited in writing by a firm of public, not certified, accountants, who offered to do all his bookkeeping except the writing of sales

invoices and checks, for \$15.00 a month. Complainant's client's bookkeeping requirements are such that it requires a minimum of 5 hours just to take off the trial balances of the 3 ledgers. Question: would it not have been poetic justice to let these shysters tackle the job and hold them strictly to their offer?"

THE SHOP TALKERS

"A grand suggestion recently made," began Oldtimer, "was that C.P.A. examination candidates be permitted to use calculating machines. It brought forth the objection that they would raise too much noise in the room. Good grief, if accountants are not used to the noise of office machinery in the places where they make audits and do good work, then they are entirely lacking in experience qualifications, no matter how much book learning they possess. In fact I've had several men tell me that the enforced silence of the examination room was nerve-racking."

"Probably an alibi for failing," said the Kid.

"Not necessarily" said Philo. "Some of them passed anyhow, or would have failed anyhow. I know that I can audit under any circumstances; 50 chattering girls and half as many typewriters don't interfere with my work, provided none of the conversation is directed to me. But when I come to write an audit report, then the more complete my isolation and the less the noise, the better I work."

"Of course the real reason why Boards cannot permit machines in the examination room," went on Oldtimer, "is the cost. Imagine the New York Board having to hire a machine for each of its seven hundred candidates!"

"It wouldn't have to hire them," said Blank. "If a fellow wants to use a machine, let him bring his own. Portable models of every kind are available; and cheap."

"Yes," said Oldtimer, "but then the examination would not be impartial. Those who owned, or could afford to hire, a machine would have an unfair advantage over the others."

"Nonsense," said the Kid. "Anybody who can afford the twenty-five bucks for

the examination fee, can find another dollar to hire a machine, if he can't borrow one gratis."

"True," said Philo. "But Oldtimer is right about the number required. You'd have to provide the candidates with bigger desks so the machines could be used. Bigger desks require more space; more space means more rent. And the Board hasn't the funds."

"Yes and no," said the Kid. "Back in your time you had to rule your own paper. But for years now the Board furnishes analysis paper, **even if not very good**. You mark my word, you'll live to see the day when machines are furnished."

"Well, for that matter," said Oldtimer,

"I agree with you. But for the present it is impractical."

"Not at all," retorted the Kid. "I'll bet that right now the Board could make arrangements with the manufacturers to furnish all the machines needed free of charge. It would be better than a business show to boost their products. And it would not require a machine for each man. They all would not be using them at once. A little extra space would be required; the machines could be lined up around the room, and the men take their work to them, or proctors take portable models to the men, as needed. And I'll venture that the big companies would pay the extra rent too."

Wee Bits on Accountancy

REGULARLY CONTRIBUTED BY LOUIS S. GOLDBERG, C.P.A., Sioux City, Iowa

More and More About Less and Less

The man of science, it has been said, the medical or other specialist, the Doctor of Philosophy, and their intellectual kinsmen, conceive their function to be to learn more and more about their specialty; more and more about less and less; and they finish, says the funster, by knowing everything about nothing.

On the other hand, the minister was saying that it is his task to know something about everything, to acquire a smattering about more and more; and he concluded, laughingly, "We end by knowing nothing about everything."

Obviously, both pictures are overdrawn. Obviously, too, both strikingly reveal a fundamental truth: the peril of over-specialization and of over-generalization.

Between the two extremes, there exists a happy middle-ground, a field that may be attained and held without falling into the third anomaly, that of being "neither fish nor fowl."

Whether you elect to travel one broad highway or another, there is no need to follow feverishly through to the goal that glitters at the end of the road . . . a goal that ever vanishes as you approach it.

There is scenery to enjoy as we go, if our speed be not too great; and byways there are, that we may take if our haste allow, that add color and meaning to our travels. The true measure of our wisdom lies in our apportionment of time between the highways and the byways, the specialized and the generalized.

In this, the professions of law and of accountancy are happily circumstanced. Those callings, by their very nature, demand a balance constantly between the special and the general. They touch life at every point and in every phase; the lawyer and the accountant apply the technique of their professions to the every-day actualities of the lives and the affairs of man. They needs must face the varied facts of life, ever as they are, in the daily pursuit of their respective specialties, if their practice be general; yet even here, the tendency is to select some small sector of the profession for intensive specialization.

An awareness of a problem is the first step in its solution. We may well inquire as we go: "Are we learning everything about nothing, or nothing about everything?"

C. P. A. Examination Questions

May, 1935

Auditing

QUESTION 1:

Draft a form of certificate to accompany the financial statements you have prepared for Best Products Company of New York. The balance sheet indicates a net worth of \$10,000,000. Your examination for the fiscal year ended March 31, 1935 has just been completed and you have complied, with certain exceptions, with the minimum requirements laid down in the pamphlet, "Verification of Financial Statements." The exceptions are:

- (a) You have made no examination of the assets of a foreign subsidiary which consist of cash and receivables totaling \$22,000 after conversion at the current rate of exchange.
- (b) You have circularized neither debtors nor creditors.
- (c) You have found inadequate provision for bad debts in the amount of \$50,000.

QUESTION 2:

During the year 1933, the Gladhand Manufacturing Company employed appraisers to determine the value of its plant and equipment. Sound values as fixed by the appraisers were found to be practically the same as depreciated cost which appears on the books of account. The management decided to make no change in valuations or accrued depreciation at December 31, 1933, but did authorize the acceptance of the appraisers' estimate of the remaining years of life of the various classes of fixed assets. Accordingly, in 1934 depreciation expense computed on the new basis was found to be \$87,250 as compared with \$104,500, the amount of depreciation that would have resulted had the old rates been continued. In view of the company's book profit for 1934 of \$11,000 do you regard as essential the disclosure of the new basis of depreciation followed in 1934? If so, give the particulars of the disclosure you would make.

QUESTION 3:

In your 1934 audit of the accounts of a paving contractor, you find that payments of more than \$100,000 have been made during the current year to public officials responsible for securing contracts for the company, the charge having been made to advertising expense. These payments amount to more than one-half the total selling and administrative expenses for the year. Would you regard their disclosure vital to your certificate or financial statements? If the disclosure is agreed to, illustrate the procedure you would employ.

The Service of Examination questions conducted by The American Society furnishes practically twice as many questions in Theory, Auditing, Commercial Law and Economics and Public Finance as could be used by any State Board for a four-hour examination period, and twice as many problems in Practical Accounting as would be required for two examination periods of four to five hours each. A Board using the service makes its own selections and adds any special questions or problems which it desires. The questions in Auditing follow.

QUESTION 4:

Benson and Albert, Inc., a wholesale grocery in Cincinnati, has in its employ agents in Brazil to whom letters of credit are given for the purpose of making purchases from time to time of coffee and certain other commodities which are shipped to this country. During your audit as at December 31, 1934, the bank reports to you the following facts as at that date:

"In accordance with your request we are pleased to report the items making up the liability of Benson and Albert, Inc., on Commercial Letters of Credit as of the close of business December 31, 1934:

Liability on Commercial Letters of Credit

<i>L/C No.</i>	<i>Amount</i>	<i>Expiring Date</i>
1628	\$1,305.00	1-12-35
1627	6,693.20	1-13-35."

How would you report these facts on your balance sheet?

QUESTION 5:

Name five items the disclosure of which you deem essential to any annual statement of profit and loss transmitted to stockholders.

QUESTION 6:

In a pamphlet issued recently by a local civic association appears the statement, "when the annual expenditures of a city are referred to, what is meant are the disbursements of the general fund?" Discuss the meaning of "general fund" and, in general, the truth of the quoted statement.

QUESTION 7:

What procedure would you recommend for the audit of fixed-asset retirements during the year?

QUESTION 8:

In what manner would you attempt to determine the adequacy of a reserve for depreciation and obsolescence on dies, jigs, and patterns?

QUESTION 9:

Explain in detail what significance attaches to the ratio of the reserve for depreciation on motors to the gross value of the motors. These motors, approximately 2,000 in number, are attached to and run individual machines in a large machine shop and are replaced at the rate of approximately 100 a year.

QUESTION 10:

Enumerate briefly the steps you would take in a security count where there are some two hundred items.

QUESTION 11:

In your audit of a large manufacturing company you discover that the directors have authorized the yearly distribution to major officers of a bonus equal to 2% of net profit. The president of the company has taken the position that in arriving at the figure on which the 2% should be applied, neither Federal income tax nor the bonus itself should be deducted. What argument would you advance in favor of or in opposition to the president's stand?

QUESTION 12:

During a first audit of a brokerage concern for which you are being compensated at regular per-diem rates, you bring to light a cleverly concealed defalcation on the part of an unbonded employee which has been accumulating over a period of years and which exceeds \$100,000. By your prompt report of the matter, the employee is apprehended and most of the funds are recovered. Do you believe you are justified in asking the clients for additional compensation for yourself beyond your regular per diems?

QUESTION 13:

In the course of your audit of a corporation you learn that during the year a large sum was loaned to the president for the purpose of maintaining the market price of the company's common stock. His trading operations were fortunate in that they resulted in substantial profits to himself. Before the close of the company's fiscal year the loan was repaid by the president, with interest. In view of the fact that no indebtedness owing from the president existed on the balance-sheet date, would it be proper to omit from your report any mention of the transaction?

QUESTION 14:

Officers of the A Company for several years have allowed portions of their salaries to remain unwithdrawn, and at December 31, 1934, a total of \$600,000 had been thus accumulated. In February, 1935, you find that the liability of the company to these officers was reduced \$500,000 by a credit to treasury capital stock. What effect, if any, would this have on your classification of the obligation to officers as a current liability at December 31, 1934?

QUESTION 15:

Outline briefly the minimum requirements in a large department store of a system of internal check that should safeguard the handling of receipts on account from customers.

QUESTION 16:

What audit procedure should accompany your first examination of the capital-stock account of a company?

QUESTION 17:

The vice-president in charge of the credit department of a bank, having been given a copy of a customer's annual audit report you have just completed, asks you to confer with him on certain questions which he feels that with your knowledge of the business you can easily answer for him. In view of the confidential relationship which exists between the professional accountant and his client, would you feel free to answer his questions?

QUESTION 18:

Under what conditions would you insist on including in an annual report intended for creditors and stockholders separate financial statements of a holding company whose subsidiaries are the units making up a large manufacturing enterprise? In the past only brief consolidated statements have appeared in the auditor's report and the president of the company has taken the position that this practice should be continued.

QUESTION 19:

How would you display minority stockholders' interest on a consolidated balance sheet?

QUESTION 20:

In your report on the accounts of a listed company how would you call attention, if at all, to the fact that this year's compensation to officers has increased from \$200,000 in 1933 to \$450,000 in 1934 by virtue of a bonus plan approved by the board of directors at the beginning of the latter year? Net profit for 1933

Questions and Answers Department

EDITOR, STEPHEN GILMAN, C.P.A., Educational Director
International Accountants Society, Inc.

Solution to Problem 5 of the May, 1935, Examination Service of The American Society of Certified Public Accountants, published on pages 507-508 of the August, 1935, issue.

The most important point for decision in preparing a solution for a problem of this type is the form of statement to be employed, as several different forms, especially for the statement of cost of goods sold, are commonly used.

Having decided on the form to be used, the two statements required may be prepared simultaneously or each may be prepared separately.

The adjustment of the inventory of work in process at the beginning of the year for burden of \$9,200 omitted would of course result in an equivalent adjustment of surplus, but this cannot be shown in the solution since the statements required do not include a statement showing the Surplus Account.

The Excelsior Machine Co.

Analysis of Reserve for Bad Debts and Loss on Repossessions for the year ending December 31, 1934

Balance, January 1			\$300,000
<i>Add—Credits:</i>			
Provision for Bad Debts for 1934 (1% of Sales \$2,000,000)	\$20,000		
Bad Debt Recoveries	5,000	25,000	
			<u>\$325,000</u>
<i>Deduct—Debits:</i>			
Bad Debts Charged Off (No repossessions)	\$ 8,700		
Loss on Merchandise Repossessed:			
Credit Allowed to Customers	\$130,000		
Less—Inventory Value of Goods Repossessed ..	80,000	50,000	58,700
			<u>58,700</u>
Balance, December 31			<u><u>\$266,300</u></u>

The Excelsior Machine Co.
Statement of Cost of Goods Sold
for the year ending December 31, 1934

Finished Goods Inventory, January 1.....		\$ 370,000
Manufacturing Costs:		
Work in Process Inventory, January 1 (adjusted)....	\$ 49,200	
Material:		
Raw Material Inventory, January 1....	\$180,000	
Raw Material Purchased.....	350,000	
	<u>\$530,000</u>	
Less—Raw Material Inventory, December 31	170,000	360,000
Direct Labor	250,000	
Factory Burden	790,000	
	<u>\$1,449,200</u>	
Less—Work in Process Inventory, December 31.....	35,000	
	<u>Cost of Goods Manufactured.....</u>	1,414,200
Add—Inventory Value of Goods Repossessed.....		80,000
		<u>\$1,864,200</u>
Less—Finished Goods Inventory, December 31.....		410,000
		<u>Cost of Goods Sold.....</u>
		<u><u>\$1,454,200</u></u>

Book Reviews

THE NATURE OF DIVIDENDS, by Gabriel A. D. Preinreich, Ph.D., C.P.A. Published by Lancaster Press, Inc., Lancaster, Pa. 238 pages. Price \$2.50.

Three sentences from the Preface indicate the scope of this book which approaches this important topic from a rather unusual angle: "The distribution of corporate wealth and the extent to which its various forms may be considered income to the investor occupies a prominent position among the moot questions of corporate finance, which do not appear to have received their share of attention up to the present." "It is the purpose of this book to approach the subject with an open mind, having regard to economic rather than legal theories and develop a framework of general principles which may then be subjected to tests in the light of other opinions." "As a starting point, it is necessary to recognize that a corporation and a partnership represent but different stages

of development in the organization of human enterprise."

This study was submitted to Columbia University as a partial fulfillment of requirements for the degree of Doctor of Philosophy. It more nearly follows the general method of mathematical approach used by the earliest American writer on the mathematics of accountancy, Charles E. Sprague, whose writings were about fifty years ahead of his time, than any other book which has come to our notice.

THE PROFIT MYSTERY AND WEALTH ILLUSION, by Clayton D. Browne. Published by Analytic Publications Company, Dallas, Texas. 176 pages.

A criticism of our mercantile and banking systems and the presentation of a method whereby the author believes we can continue to live and work in peace and reasonable security.

CONFLICTING TAXATION, the 1935 Progress Report of the Interstate Commission on Conflicting Taxation, by the Research Staff Commission. Published jointly by the American Legislators' Association and the Council of State Governments, Drexel Avenue and 58th Street, Chicago, Illinois. 202 pages.

This comprehensive study on the general tax conflict situation is based on the fact that Federal and State governments are deriving revenue from the same tax sources in more than 800 cases. While most of these cases of duplication are relatively unimportant from the standpoint of revenue yield, at least seven of them are relied upon by each unit as major sources of income: the personal income tax, the corporation, income tax, inheritance and estate taxes, amusement tax, tobacco tax, alcoholic beverage taxes and the gasoline tax. The report discusses the evils arising from the situation and cites and analyzes four major proposals which have been urged to eliminate tax conflicts.

AN INTRODUCTION TO GAS UTILITY ACCOUNTING, by Collis Porter Thompson. Published by Edwards Brothers, Inc., Ann Arbor, Michigan. 135 pages. Price \$2.00.

This book is primarily for gas utility employees, practicing accountants and for students of accountancy. Its purpose is to introduce accounting problems peculiar to the gas utility industry, present the methods used in their solution, evolve principles therefrom, and make comparisons with general accounting principles of mercantile, industrial and financial organizations. Chapters discuss the nature of gas utilities and their accounting problems; departmental organization of an operating gas utility; State regulation of gas utilities and uniform classification of accounts; accounting books and records; accounting for fixed assets; accounting for accounts receivable; accounting for materials and supplies; accounting for sinking funds and miscellaneous assets; accounting for long term debt; accounting for current and accrued liabilities; accounting for reserves, capital stock, and surplus; income accounting; expense accounting; future accounting for gas utilities.

LEGAL RESPONSIBILITIES AND RIGHTS OF PUBLIC ACCOUNTANTS, by Wiley Daniel Rich. Published by American Institute Publishing Co., Inc., New York. 236 pages. Price \$2.50.

This book treats case and statutory law applicable particularly to accountants. The first chapter deals with the accountant's liability for negligence, fraud and libel. The remaining chapters discuss the law relative to the accountant's certificate, the accountant as an expert witness and some special rights of accountants.

In our December, 1933 issue we received NEW YORK C.P.A. LAW QUESTIONS WITH ANSWERS, by A. Lincoln Lavine, Member of the New York Bar. Since the publication of that book, which answered law questions asked in examinations from November, 1915 to November, 1932, two Supplements have been issued which contain questions and answers to the examinations given in 1933 and 1934. These may be obtained at a cost of fifty cents, each, from Professional Publications, 22 East 40th Street, New York City, successor to the Standard Text Press in handling Dr. Lavine's manual.

CHANGES IN THE FINANCIAL STRUCTURE OF UNSUCCESSFUL INDUSTRIAL CORPORATIONS, by Raymond F. Smith and Arthur H. Winakor. Bulletin No. 51, Bureau of Business Research, University of Illinois. Published by the University of Illinois, Urbana.

This study was based on the financial statement of 183 large industrial companies which had failed in recent years. For the main part of the investigation the ratio analysis method is employed, but supplementary material on the capital structure and dividend policies of the companies studied is also presented. The analysis reveals that there are definite danger signals in the changing financial structures of unsuccessful concerns. By comparing specific cases with the background presented by the authors, companies may be warned against detrimental practices and perhaps be diverted from courses which might ultimately lead to failure.

CEMETERY ACCOUNTS, by Walter Mucklow, C.P.A. Published by American Institute Publishing Co., Inc., 135 Cedar Street, New York. 208 pages. Price \$2.50.

So far as is known this is the first book to be published in this country on the subject of cemetery accounts. The author has assumed a knowledge of bookkeeping on the part of his readers and has therefore touched lightly on many matters common to all accounts and has confined discussion to matters peculiar to the subject. Following the introduction, his chapters deal with organization, accounting principles, classification of capital accounts, operating accounts, character of sales made, treatment of sales, commissions and discounts, the records required—general records, cash and collections, special records required, profits in general, perpetual care, accounts for perpetual care and for trust funds, perpetual-care funds and Federal income tax, trusts, maintenance, reports for cemeteries, the annual report, miscellaneous, auditing. Forty-three forms are used to supplement the treatment of the subject.

THE CREDIT MANUAL OF COMMERCIAL LAWS for 1936, prepared by the National Association of Credit Men, One Park Avenue, New York. 536 pages. Price \$5.00.

The 1936 manual has been completely revised and much of the text rewritten. An entire new chapter has been written on the basic theory of Contract Law and the contract-law theme is carried throughout the book. Two entirely new subjects have been introduced in this year's edition. One has to do with Social Security Legislation and the other covers the basic methods in Foreign Trade. Another new feature is the collection of all of the law summaries in one section, arranged by states.

CLUB ECONOMICS, by Archie F. Reeve, C.P.A. Published by Cleveland Publishing Company, 90 Broad Street, New York City. 144 pages. Price \$3.00.

This book presents a comprehensive study of club operation from the standpoint of administration, service and maintenance. Simple, concise and in convenient form, it should be of practical use to club

managers, house committeemen, presidents, boards of governors and anyone concerned with club problems. Special emphasis is given to budget preparation and how to operate within the budget. The author makes liberal use of charts and forms in illustrating his points. A subject index further aids in the use of the book.

Social Security Act

The Social Security Act has provided the usual number of questions which follows any new type of legislation. The American Public Welfare Association devoted practically its entire July issue to an analysis of the bill. In presenting the various phases, several interesting quotations were made from the report of its Committee on Economic Security, some of which were as follows:

"It is the consensus of opinion among experts based upon the data from the number of surveys of the problem, that not less than one-third of all our old people reach old age without a competence. The number of persons 65 years of age and over in the United States has been recently estimated to total 7,200,000. Based upon these facts it is probably safe to say that there are approximately 2,400,000 persons, aged 65 and over, who are dependent either on public charity or the support of relatives, friends and private charity. The surveys upon which the above proportions are based were taken during the relatively prosperous years from 1920 to 1929."

"People live longer today than they did 10 or 20 years ago. On the other hand, fewer children are born each decade. Such a combination of factors results in a larger proportion of older people in the total population than we had several generations ago. Experts believe that this proportion will continue to grow for at least forty years."

"Unemployment with attendant economic insecurity, a grave problem today, is a chronic evil during normal times. Throughout the 'prosperous twenties' there was marked unemployment. There was never less than a million and a half unemployed during this period."

Blessings

From Supreme Council, 33*, Bulletin

ONCE upon a time there was an impecunious young man who bewailed the fact that, through lack of effort and love of ease, he was constantly without funds. Although a strapping fellow, enjoying perfect health and a liberal measure of good looks, he was always miserable. Why did not rich inheritances come to him as had been the experience of other young men? Why should he be denied the pleasures and comforts of life that others seemed to enjoy?

The boy had a wealthy uncle, a shrewd, far-sighted merchant, who, by his own efforts had battled his way up through life to financial independence. The boy resolved to visit his rich relative with a view to obtaining a monetary gift. Putting this thought into practice he called upon the uncle and plaintively rehearsed his tale of woe. The older man gazed at him thoughtfully, then suddenly spoke. Said he: "I am an old man and have toiled very earnestly for the financial success I now enjoy. You are young and vigorous, have done but little if any hard work, are in perfect health, and yet you complain of the harshness of life. You seek my aid. I will grant it. For instance, I will give you \$5,000 for your strong right arm." The young man, at first startled, indignantly spurned the offer. The uncle again spoke: "Well, perhaps you will sell me your right eye for \$5,000." Again a refusal. "Or perhaps," the uncle resumed, "you will permit me to buy your sturdy legs at \$5,000 a piece, or your stomach, or your good sound heart for like amounts." This was more than the youth could stand, and he burst into a fit of weeping.

The uncle smiled: "Young man," said he, "you are supremely rich. You have a sound mind in a healthy body. You have youth, energy and the promise of a glorious future, and yet you come to me complaining of your ill fortune, when God has so richly endowed you."

The youth was humiliated, for the first time in his life he realized the value of *good health*; that he was indeed *rich*. All thoughts of self-pity vanished. He then

and there resolved to put his talents into active operation instead of burying them.

That boy had an equal chance with his fellows; it was in his power to attain the same financial status enjoyed by his rich uncle. But it was necessary that he be *grateful* for the blessings of good health and a clear mind divinely bestowed upon him. Needless to say, he thereafter determined to fight life's battles courageously and *win*—thanks to the homely but very helpful philosophy of his sagacious uncle.

Report of Committee on Cooperation With Trade Groups

As chairman of the Committee on Cooperation with Trade Groups, I would like to present a summary of what has been accomplished by the committee since its appointment in November, 1934.

This committee was appointed with the purpose in mind of bringing about cooperation between business management and accountants for the mutual assistance of both groups. It was planned to accomplish this through contact with trade groups in each district, by the members of the committee in that district, who would suggest that mutually interesting meetings could be arranged through an exchange of speakers, joint programs, or discussion of accounting problems by accountants and trade association executives or industrial managers.

To carry out this program it was the plan of your chairman to present to the presidents of the State certified public accountants' societies, either directly or through the members of the committee, the suggestion that a similar committee be appointed in the State society which would cooperate with the member of The American Society in that district. This would establish a nation-wide organization directed locally by the State societies and in touch with the national committee through the members of The American Society's Committee on Cooperation with

Trade Groups. Owing to an unusually heavy demand on your chairman's time during the past season he has not been able to accomplish as much as he had hoped to, but has, after a good deal of correspondence, and with the approval of the president, selected and appointed the members of his committee. In order that the membership should be representative, a member was appointed from the most central city of certain geographical districts into which the country was divided. The presidents of the State societies were asked to recommend members of their societies whom they believed would be eligible and interested in organizing the work of the committee in their districts. Upon their recommendation the following members of the Society were appointed and have accepted membership on the Committee on Cooperation with Trade Groups:

Albert G. Aschenbeck, Minneapolis
John Berg, Washington
J. L. Block, Houston
Harry Braverman, Newark
H. Brooks Davies, Cleveland
Frank S. Glendening, Philadelphia.
Clyde C. Hale, Chicago
Robert C. Mare, St. Louis
Henry F. Meyer, Savannah
Lucien J. Moret, New Orleans
Ames Nowell, Boston
Wm. J. Piepenbrink, Portland
John C. Thomson, Los Angeles
William M. Trant, Denver

John C. Thomson, member of the committee at Los Angeles, has taken the initiative in organizing a Committee on Cooperation with Trade Groups in California. He has received the enthusiastic cooperation of W. C. Graves, President of the Los Angeles Chapter of The California State Society of Certified Public Accountants, and Harry B. Mills, President of The California State Society. After considering various aspects of the work to be undertaken it was decided that a State committee on cooperation with trade groups should be appointed in California which would include members of the different California Chapters and that

1. John C. Thomson should be Chairman of the State committee;

2. The Chapter presidents should be consulted in the matter of making appointments to the State committee.

Accordingly the following members of the California Society were appointed:

James E. Hammond, San Francisco
R. W. E. Cole, Los Angeles
George W. Sims, Fresno
Raymond M. Walmsley, San Diego.

Pending the organization of the State Committee on Cooperation with Trade Groups to work with the committee of The American Society, Mr. Thomson advised that he had consulted with Mr. Graves who directed a letter to the members of the Board of the Los Angeles Chapter asking their immediate consideration of the purpose of the Committee and for suggestions toward accomplishing its aims.

Mr. Thomson also addressed a letter to the Los Angeles Chapter suggesting the circularizing of members of the Chapter to enlist those who would be available to address meetings of industrial groups, and to get suggestions for carrying the work forward. This led to consideration of the advisability of appointing a State Society Speakers' Bureau, and Mr. Mills advised that Mr. Arthur Loomis had consented to act as chairman of such a committee.

In connection with the purpose of a speakers' bureau, it was the thought of President Mills that it would be desirable for the speakers to submit an outline of their chosen subject to the Bureau for review. This would be for the purpose of coordinating the various addresses proposed and adapting them when occasion arose for presentation before different trade organizations and different meetings. A portfolio of subjects would thus be available from which to choose an address suitable to the needs of any particular group and a roster of speakers who would be familiar with the subject.

It was suggested that another function of such a bureau would be a study of the accounting requirements of various industries, although this would also be a proper function of the Committee on Cooperation with Trade Groups. The study could be undertaken through the trade associations and would be particularly suitable as a

mutually helpful undertaking. This would also be in line with Mr. Thomson's thought that "there should be some reciprocity and that we should not go out as missionaries to the heathens but should realize that we too have much to learn from trade groups that would be helpful to us . . ."

Mr. Thomson also addressed a letter to the Los Angeles Chamber of Commerce announcing the organization of the new committee and explaining its desire to "exchange ideas, speakers, etc., for the mutual advantage of industry, business management, and the accountant," and that cooperation would be helpful in arranging joint meetings of accountants and industrial groups.

Upon two occasions cooperation with trade groups was undertaken by a member of the Los Angeles Chapter who addressed the Eleventh Annual Conference of the Iron and Steel Industry of the California State Chamber of Commerce and also discussed the subject of "Internal Auditing" before the Los Angeles Chapter of the National Association of Cost Accountants.

Mr. Thomson's last report advised that plans are under way for a joint meeting of the State Society of C.P.A.'s and the State Society Chapters at Fresno in November, when the committee members will meet and discuss its aims and make plans to carry them out.

Your chairman is indebted to Mr. Thomson for the way in which he has taken the initiative in the work of the committee and for the progress he has made in organizing it in California. His work is given in this report in detail as a guide for future work of the committee. It is recommended that this information be made available to the chairman and members of the committee appointed to carry on the work of the Committee on Cooperation with Trade Groups for the succeeding Society year.

In New York the chairman has presented to The New York State Society of Certified Public Accountants for consideration, the appointment of a Committee on Cooperation with Trade Groups which would work in conjunction with the Committee of The American Society. The proposal will be considered by the Board of Directors at its meeting in October and

the indications are that such a committee will be authorized.

As time did not permit submitting this report to the members of the Committee on Cooperation with Trade Groups, your chairman presents it without their approval and subject to exceptions they may wish to take.

Respectfully submitted,

ARTHUR MARVIN,

Chairman.

Report of Committee on One National Organization

Your Committee on One National Organization held meetings during the year and discussed the problems involved in the proposition to merge the American Institute of Accountants and The American Society of Certified Public Accountants.

A meeting held at Atlantic City on August 23-24, on invitation of the New York State Society, was attended by your committee on invitation. As the report of the secretary of that conference covers the discussion that was had and the action taken very fully, it is presented as a report of your committee to the membership of The American Society as indicating the present status of this movement.

Respectfully submitted,

JOHN T. MADDEN, Chairman.

Conference Report*

The conference of presidents of the State societies of certified public accountants convened at the invitation of the New York State Society of Certified Public Accountants at the Claridge Hotel, Atlantic City on Friday, August 23, 1935, at 10:00 A. M.

Those present included the presidents or authorized representatives of State societies; members of the committees dealing with the subject of a single national organization of the American Institute of Accountants, The American Society of Certified Public Accountants, and the New

*The Conference Report was printed as a separate document but is reproduced here as a matter of official record.

York State Society of Certified Public Accountants; members of the Board of Directors of The American Society; Mr. George Armistead, President of the American Institute of Accountants, and Mr. William C. Heaton, President of The American Society of Certified Public Accountants; Mr. John L. Carey, Secretary of the American Institute of Accountants, and Mr. D. W. Springer, Secretary of The American Society of Certified Public Accountants; and other members of both national organizations. Forty-one State societies were represented including the District of Columbia and Puerto Rico. A total of seventy-two attended the conference.

The State societies of certified public accountants represented and the names of the representatives were as follows:

Alabama, Gilbert F. Dukes, President; Arizona, Arthur C. Rogers, President; California, Harry B. Mills, President; Colorado, W. B. Paul, Vice-President; Connecticut, Russell Everett, President; Delaware, C. E. Iszard, President; District of Columbia, Harold C. Anderson, President; Florida, Charles H. Goodrich, President; Georgia, E. W. Gottenstrater, President; Idaho, James Munro, President; Illinois, Fred J. Duncombe, Secretary; Indiana, William M. Madden, Delegate; Iowa, E. G. Prouty, President; Kentucky, Sam W. Eskew, Delegate; Louisiana, August A. Wegmann, President; Maryland, Edward G. Shipley, Vice-President; Massachusetts, Homer N. Sweet, President; Michigan, W. B. Isenberg, President; D. W. Springer, Delegate; Minnesota, Earl A. Waldo, President; Missouri, Lee J. Muren, President; Montana, George F. DuVall, Secretary; Nebraska, Elton C. Loucks, President; New Hampshire, James Dwyer, Delegate; New Jersey, Julius E. Flink, President; New Mexico, C. L. Linder, Delegate; New York, James F. Hughes, President; North Carolina, O. N. Hutchinson, Delegate; Ohio, Hermann C. Miller, President; Oregon, C. Lyle Kelly, Delegate; Pennsylvania, James M. Cumming, President; Puerto Rico, William A. Waymouth, President; Rhode Island, Ernest H. Davison, Delegate; South Carolina, H. S. Blanton, President; South Dakota, H. H. Hobbs, President; Tennessee, Hilary

H. Osborn, President; Texas, T. W. Leiland, President; Vermont, Clarence S. Springer, President; Virginia, George R. Geddy, President; Washington, Neil Sexton, Vice-President; West Virginia, J. L. Jennings, Delegate; Wisconsin, Thos. A. McCormack, President.

The members of the committees of the American Institute, The American Society and of the New York State Society who have been considering this subject are as follows:

American Institute of Accountants—Frederick H. Hurdman, Chairman, Robert O. Berger, John F. Forbes, James J. Hastings, Walter A. Staub.

American Society of Certified Public Accountants—John T. Madden, Chairman, James F. Hughes, Eric Louis Kohler, Frank Wilbur Main, Herman C. J. Peisch.

New York State Society of Certified Public Accountants—Robert H. Montgomery, Chairman, Arthur H. Carter, A. S. Fedde, P. W. R. Glover, Joseph J. Klein, Paul Kenneth Knight, Samuel D. Leidesdorf, Simon Loeb, Homer S. Pace, Rodney F. Starkey, Andrew Stewart, Norman E. Webster.

The following Directors of The American Society of Certified Public Accountants, in addition to those named in previous lists, were present:

W. J. Carter, Alfred H. Coe, John A. Conlin, Patrick F. Crowley, P. W. Fitzkee, George P. Ellis, William D. Morrison, Melvin D. Wilson.

The following members of the Council of the American Institute of Accountants, in addition to those named in previous lists, were present:

Charles B. Couchman, *Harry M. Jay, I. B. McGladrey.

The meeting was called to order by Colonel Robert H. Montgomery, Chairman of the Committee of the New York State Society dealing with the subject of a single national organization.

On motion duly made and seconded,

*Also member of Board of Directors of The American Society of Certified Public Accountants.

James F. Hughes, President of the New York State Society, was elected temporary Chairman of the conference and Harry B. Mills, President of the California State Society, was elected temporary Secretary.

Col. Robert H. Montgomery, Chairman of the New York State Society Committee, explained the developments, extending over a period of more than a year and a half, that had culminated in the present conference, and the reasons why two national accounting organizations, competing to some extent with each other, could not possibly be to the best interests of the members of the profession. He stated that Messrs. Frederick H. Hurdman and John T. Madden, Chairmen respectively of the Committees of the American Institute and The American Society, were present and invited to come to the platform.

Mr. Hurdman, Chairman of the Institute Committee, explained that as the result of deliberations of the Institute and Society Committees, substantial agreement had been reached on what was believed to be all material points of difference and that a basis of merger was now available for consideration by those present.

Mr. Madden, Chairman of The American Society Committee, discussed the basis of merger and explained the reasons for the various provisions.

Chairman Hughes explained that the presidents and representatives of State societies were necessarily without authority to act for or bind the members represented. It was felt, however, that the opinions of such representatives would undoubtedly express the sentiment of the accountants throughout the country. The purpose of the conference was to secure the expression of opinion from State society representatives to the end that there might be reasonable assurance that any basis of merger adopted or recommended would be acceptable to the greater proportion of the members of both existing national accounting organizations. Chairman Hughes suggested that in order to give all the opportunity to speak, speakers limit their opening remarks to five minutes each. It was the sense of the meeting that should anyone propose a plan he would have all the

time he required to present the plan but that those discussing it be limited each to five minutes in their first speech. Chairman Hughes ruled, that, in order that all representatives might have the opportunity of full, frank and uninfluenced discussion, the privileges of the floor would be denied all other than presidents or designated delegates of State societies.

On motion duly made and seconded, the presidents and designated delegates of State societies voted that when all such presidents or delegates had finished their discussion of any particular topic the privilege of the floor might be accorded those whose interest in the conference had led them to be present.

The Chairman announced that in accordance with this action, after all representatives had completed their discussions, the privilege of the floor would be given to those not representing State societies who might wish to speak upon the topic. Chairman Hughes further ruled that the presidents or duly authorized representatives of State societies alone were entitled to vote.

On motion made by Mr. Gottenstrater of Georgia and seconded by Mr. Hobbs of South Dakota, the following resolution was unanimously adopted:

Resolved: That it is the opinion of the representatives of State societies here assembled that one national accounting organization is to the best interests of the members of the profession.

At this point Mr. Hurdman was requested to submit the points agreed upon by the committees of the two national organizations.

On motion made by Mr. Waymouth of Puerto Rico and seconded by Mr. Hobbs of South Dakota, the following resolution was unanimously adopted:

Resolved: That the suggested plan for a merger of the two existing national accounting organizations be approved in principle, but that each of the several points involved be discussed and separately voted upon.

Mr. Hurdman explained that the first point agreed upon had to do with the name of the proposed national organization and

that the name agreed upon by the committees of the two existing national organizations was "The American Institute of Accountants." This agreement was reached in consideration of the fact that, because of endowment funds and other property rights involved, competent legal counsel had advised that the assets of the American Institute could not be legally transferred to a new organization, and the existing corporation would therefore be required to be continued as the corporate vehicle by which the merger might be accomplished.

It was further explained that an effort to change the name prior to or coincident with the merger might imply the creation of a new corporation, but that subsequent to the merger there would be no legal difficulty incident to a change of name to any that might be more acceptable to the membership of the single national organization.

On motion duly made and seconded, the following resolution was unanimously adopted:

Resolved: That it is the opinion of the representatives of the State societies here assembled that the name of the resulting single national organization should be

The American Institute of Certified
Public Accountants.

Prior to the adoption of the foregoing resolution the following amendment was introduced, laid on the table pending disposition of the motion and finally withdrawn, inasmuch as whatever action was taken at the conference would finally be submitted to the membership of State societies as well as the present national organizations:

Resolved: That it is the opinion of the representatives of State societies here assembled that the name "American Institute of Certified Public Accountants" should be submitted to the vote of the members of the resulting single national accounting organization after the merger has been consummated.

The following resolution was also introduced and laid upon the table, without subsequent action:

Resolved: That the name "American

Institute of Certified Public Accountants" should be submitted to the membership for approval or disapproval.

Chairman Hughes adjourned the meeting at 1 P. M., that those present might accept the invitation of the New Jersey State Society of Certified Public Accountants to lunch at the Claridge Hotel.

Chairman Hughes called the reconvened conference to order at 3 P. M.

Mr. Hurdman explained that the second point agreed upon was "that the membership of The American Society be merged with the membership of the American Institute."

It was explained that under the proposed plan all members of The American Society in good standing at the date of merger were to be admitted en bloc to membership in the national organization. Two classes of membership were provided for, namely, members and associates. The proposed dues of members were \$25.00 per annum and of associates \$10.00 per annum; the latter do not have the right to vote. Members of The American Society at the date of merger were to be given the option of becoming either members or associates, but all were to have the privilege of becoming members with the understanding that any who became associates might subsequently have the right to become full members. It was further explained that American Society members at the date of merger would necessarily be required to subscribe to the by-laws and code of ethics of the national organization just as was done by present members of the Institute when they became members of it.

The desirability of one class of members and of lower annual dues was discussed. Members of the committees explained that it had been their conclusion that until the income and expenses of the resulting single national organization were more definitely known it would not be desirable to curtail income. Further, that the two classes of membership made it possible for those desiring to do so to secure associate membership at a smaller annual cost, than voting membership costs at present in either of the existing national organizations. It was further explained that whatever income

could be secured could be advantageously expended for the benefit of members. On the other hand, increased membership of the resulting single national organization might make it advisable to reduce dues at some future date.

It was suggested, without action, that the by-laws of the resulting single national organization be submitted to members at the time the basis of merger is submitted.

Upon motion made by Mr. Prouty of Iowa and seconded by Mr. Waymouth of Puerto Rico, the following resolution was unanimously adopted:

Resolved: That it is our opinion that the membership of The American Society be merged with the membership of the American Institute, and that the members of The American Society be admitted to membership in the resulting single national organization upon certification by the President and Secretary of the Society as to members in good standing.

Mr. Hurdman explained that the third point agreed upon was to the effect that after the merger none but Certified Public Accountants be admitted to membership in the resulting single national organization.

It was explained that it was not intended that possession of a C.P.A. certificate be the sole qualification for admission. The right would be retained to exclude any certificate holders who did not possess reasonable qualification. It was further explained that consideration had been given to the desirability of admitting all members of State societies, and that the conclusion had been reached that such action would not be desirable at the present time. It might be possible at a future date.

On motion made by Mr. Madden of Indiana and seconded by Mr. Isenberg of Michigan, the following resolution was unanimously adopted:

Resolved: That after the merger it is our opinion that none but Certified Public Accountants should be admitted to membership in the resulting single national organization.

Mr. Hurdman presented the fourth point agreed upon, namely, that the by-laws of the resulting single national organization

provide for an advisory council to be composed of the presidents of all State societies of Certified Public Accountants.

It was explained that the proposed advisory council would be without legislative power but that it was obvious that the recommendations of so representative a body would receive most serious consideration. It was further explained that the governing body of the resulting single national organization was to be elected in the same manner as the existing council of the American Institute.

Practically all delegates and others present took part in the discussion on the governing body of the resulting single national organization and on the manner of its election.

A motion was presented and subsequently laid on the table as follows:

Resolved: That the by-laws of the proposed national organization provide for an advisory council to be composed of the presidents of all State societies of Certified Public Accountants.

An amendment was offered to the above resolution and likewise laid on the table, without subsequent action, as follows:

Resolved: That the advisory council be composed of presidents or duly authorized representatives of State societies.

On motion made by Mr. Waldo of Minnesota and seconded by Mr. Prouty of Iowa, the following resolution was introduced:

Resolved: That the directors of the proposed national organization be chosen by the members resident in designated districts and that the officers be chosen by such directors.

After considerable discussion on the above resolution, and in the absence of agreement as to the proper course to pursue, on motion made by Mr. Isenberg of Michigan and duly seconded by several from the floor, the following resolution was unanimously adopted:

Resolved: That the chairman appoint a committee of seven to consider the resolution before the conference and to recommend, if possible, a compromise resolution for consideration on Satur-

day morning, three of the members of the committee to be in favor of the resolution, three opposed, and one unbiased.

Chairman Hughes then appointed the following committee in compliance with the requirements of the foregoing resolution:

Unbiased: Mr. Paul of Colorado, Chairman.

In Favor: Mr. Leland of Texas, Mr. Osborn of Tennessee, Mr. Hutchinson of North Carolina.

Opposed: Mr. Everett of Connecticut, Mr. Iszard of Delaware, Mr. Kelly of Oregon.

The conference adjourned at 7 P. M. as those present were being entertained in the evening at a dinner given by the New York State Society, the conference to reconvene at 10 A. M. on Saturday morning, August 24, 1935.

August 24, 1935.

The adjourned conference was called to order by Chairman Hughes at 10:30 A. M. Saturday morning.

The privilege of the floor was extended to Col. Montgomery and Mr. D. W. Springer, each of whom made short talks.

Chairman Hughes announced the receipt of communications from the State societies of Kansas, Mississippi, Utah and Wyoming, indicating their approval of a single national organization to represent the profession. These states were not represented at the conference.

Mr. Paul reported on behalf of the special committee appointed the previous day and presented the following resolution:

Whereas, it is the object of the proposed national organization to increase its membership; to promote harmony among its members; to provide for efficiency of operation; to encourage the dissemination of ideas through wide representation and to expedite complete organization under amiable circumstances, Now then be it

Resolved: That the presidents and delegates here assembled recommend to the resulting single national organization the early adoption of a provision in its by-laws, which will provide for the election

of members of the council by districts and by the members resident in the district.

The above resolution was seconded by several from the floor and after full discussion and careful consideration was unanimously adopted.

On motion made by Mr. Everett of Connecticut and seconded by Mr. Anderson of the District of Columbia, the motion previously presented and having to do with the creation of an advisory council of State society presidents was reintroduced and restated as follows:

Resolved: That we recommend that the by-laws of the proposed national organization provide for an advisory council to be composed of the presidents, or duly authorized representatives in case the president may not be eligible or able to serve, of State societies to consider such questions as may be referred to it by the governing body and to initiate and recommend such action on the part of the governing body as may be proper.

After full discussion the above resolution was unanimously adopted.

Chairman Hughes requested Mr. Madden of Indiana to briefly summarize the action taken by the conference up to that time.

On motion made by Mr. Leland of Texas and duly seconded, the following resolution was unanimously adopted:

Resolved: That the Secretary of this conference be instructed to mail a copy of the record of the proceedings of the meeting to presidents and delegates present, and to the presidents of societies not represented.

On motion made by Mr. Dukes of Alabama and seconded by Mr. Iszard of Delaware, the following resolution was unanimously adopted:

Resolved: That the Secretary be instructed, in writing the minutes of the meeting, to use the name "National Organization" in referring to the name of the merged organization.

Mr. Heaton, President of The American Society, was accorded the privilege of the floor and stated that, in his opinion all essentials of the desires and wishes of the

Board of Directors of The American Society, as expressed in meetings held during the course of the conference and at other times, were included in the official action taken by those attending the conference.

Discussion was entered into as to the future action necessary to effect consolidation. Conclusions were reached as follows:

1. That the action taken by the conference be transmitted by the committees of the two national organizations to their respective governing bodies.

2. That so far as feasible in the limited time available, each State society approve or disapprove the action of the conference and advise the governing bodies of the present national organizations of their conclusions prior to the annual meetings of the national organizations.

3. That the governing bodies of the two national organizations take such action as might be advisable or necessary at the time of their annual meetings.

4. That the proposed plan be referred to the members of both national organizations for their consideration and action as soon as possible subsequent to the annual meetings of the two organizations.

On motion made by Mr. D. W. Springer of Michigan and seconded by Mr. Dukes of Alabama, the following resolution was unanimously adopted:

Resolved: That the President appoint a committee to prepare a brief statement of the proceedings of this meeting for presentation to the presidents of State societies, that they might undertake to secure the approval or disapproval of their respective societies during September if possible, for the guidance of the governing bodies of the two national organizations at the time of their annual meetings.

Chairman Hughes appointed a committee in accordance with their resolution as follows:

Mr. Madden of Indiana, Chairman, Mr. Prouty of Iowa, Mr. Eskew of Kentucky.

The meeting adjourned at 12 M. to be reconvened at 3 P. M.

The adjourned meeting was called to order by Chairman Hughes at 3:20 P. M.

Mr. Madden on behalf of the special committee previously appointed, reported as follows:

"We, your committee on presentation of a statement of the proceedings of this conference respectfully submit the following:

"The conference, the members of which were the presidents and authorized delegates of the State societies of certified public accountants, on a single national organization, met at the Hotel Claridge, Atlantic City, New Jersey, at ten o'clock A. M., August 23, 1935.

"The meeting was called to order by Colonel Robert H. Montgomery, of New York, Chairman of the Special Committee of the New York State Society of Certified Public Accountants.

"Mr. James F. Hughes, President of the New York State Society of Certified Public Accountants, was elected Chairman, and Mr. Harry B. Mills, President of the California Society of Certified Public Accountants, was elected Secretary.

"Mr. Frederick H. Hurdman, Chairman of the American Institute of Accountants' special committee dealing with the subject of a single national organization, and Mr. John T. Madden, Chairman of The American Society of Certified Public Accountants' special committee, presented reports of the action of those committees.

"The conference unanimously adopted a resolution that in its judgment one national organization would best serve the accountancy profession.

"The conference then unanimously adopted a resolution approving in principle the plan outlined by Mr. Hurdman and Mr. Madden, with the understanding that the plan would be taken up in detail and considered point by point.

"Mr. Hurdman then read point one of the plan which contemplates the continuation of the American Institute of Accountants as the one national organization under the name of American Institute of Accountants, because of the legal difficulties involved in the transfer of assets of that organization to a new organization.

"After discussion the conference unanimously adopted a resolution approving this point of the plan.

"A resolution was unanimously adopted expressing it as the opinion of those present that the name of the national organization should be The American Institute of Certified Public Accountants and requesting that the suggestion as to the change in name be submitted to the members of the new organization after the merger.

Mr. Hurdman then presented point two of the plan which provides that the members of The American Society of Certified Public Accountants become members of the American Institute of Accountants upon certification by the President and Secretary of The American Society of Certified Public Accountants of a list of those members in good standing as of the date of the merger of the two organizations.

"The conference unanimously adopted a resolution approving this point of the plan.

"Mr. Hurdman then presented the third point of the plan which provides that after the merger no one may become a member of the American Institute of Accountants except a Certified Public Accountant.

"The conference adopted a resolution approving this point of the plan.

"Mr. Hurdman then presented point four of the plan which provides for the creation of an Advisory Council of the American Institute of Accountants to be composed of the presidents of the various State societies of certified public accountants, with authority vested in each such president to delegate someone to represent him at any meeting of such council in event of his inability to attend; and also making it mandatory that this Advisory Council hold at least one meeting each year.

"The conference unanimously adopted a resolution approving this point of the plan.

"In connection with the discussion of point four of the plan, the following resolution was presented and unanimously adopted:

"Resolved: That we recommend to the newly merged organization the early adoption of a provision in the by-laws which will provide for the election of members of the council by districts and by the members resident in the district.

"The above resolution was presented by a special committee appointed by the Chairman as a result of protracted discussion by the conference relative to a resolution presented on behalf of the Board of Directors of The American Society of Certified Public Accountants in which that Board expressed its views relative to the form of government of the national organization after the merger is accomplished.

"A rising vote of thanks was extended to the New York State Society of Certified Public Accountants and the New Jersey Society of Certified Public Accountants for the hospitality shown to the members in attendance at this conference; also to Mr. James F. Hughes for his untiring efforts to bring about the conference and for his able presiding at the conference and to Mr. Harry B. Mills for his untiring labors as Secretary of the conference.

Signed WILLIAM M. MADDEN, Chairman.

" E. G. PROUTY.

" S. W. ESKEW."

On motion made by Mr. Madden of Indiana and seconded by Mr. Cumming of Pennsylvania, the report of the special committee was unanimously accepted.

On motion made by Mr. Dukes of Alabama and seconded by Mr. Springer of Michigan, the Secretary was instructed to include the report of Mr. Madden's committee in full in the record of proceedings of the conference.

On motion made by Mr. Gottenstrater of Georgia and seconded by Mr. Goodrich of Florida, the following resolution was unanimously adopted:

Resolved: That it is the sense of the presidents and delegates here assembled that the proposed national accounting organization should maintain an office in Washington, D. C.

Mr. Osborn of Tennessee stated that the Tennessee Society of C.P.A.'s would meet on Friday next and invited those present who could do so to come to Memphis and take part in that meeting.

Mr. Anderson of the District of Columbia invited all certified public accountants to accept the hospitality of that Society at

any time they might be in the city of Washington.

On motion made by Mr. Waymouth of Puerto Rico and duly seconded, appreciation was expressed to the New York State Society for their efforts to bring about a full and frank discussion by presidents of State societies of certified public accountants of a merger of the existing national organizations and for the hospitality extended to attending presidents and delegates. Appreciation was also expressed to the New Jersey State Society of C.P.A.'s for the hospitality extended by it to attending presidents and delegates.

Chairman Hughes on behalf of the New

York State Society expressed appreciation to attending presidents and delegates and to their societies for the cooperation that made the conference possible.

On motion made by Mr. Madden of Indiana and seconded by Mr. Gottenstrater of Georgia, Chairman Hughes was made permanent chairman of the conference and Secretary Mills was made permanent Secretary of the conference.

On motion of Mr. Cumming of Pennsylvania the conference was adjourned at 4:30 P. M., Saturday, August 24, 1935.

(Signed) HARRY B. MILLS,
Secretary.

STATE SOCIETY NEWS

CALIFORNIA

The Los Angeles Chapter of the California State Society had a meeting on the evening of October 7, at which time Howard S. Thompson, C.P.A., presented a paper on "Oil Inventories."

At the November 12 meeting Lewis A. Carman, C.P.A., was the speaker, having as his subject "Accounting Concepts of the Future."

The mid-year meeting and joint meeting of Chapters of the California State Society of Certified Public Accountants was held at the Fresno Hotel, Fresno, on November 2 and 3, 1935.

On Saturday afternoon papers were presented by representatives of the three chapters as follows: "Qualifications of the Professional Accountants in Great Britain as Compared with California," by B. W. Bours, of San Francisco and "The Social Security Acts," by Robert Buchanan, of San Francisco; "Accounting Practice in Smaller Communities," by Geo. W. Sims of Fresno; "Financial Requirements of Expanding Business," by Ralph Sperry of Los Angeles, and "Tax Evasion vs. Tax

Avoidance," by Walter Mitchell of Los Angeles.

In the evening there was a banquet for members and their ladies at which Willis H. Brown was toastmaster, following which business sessions were held for the purpose of hearing reports of committee chairmen and discussing the year's activities of the State Society.

The golf tournament was held on Sunday morning at Sunnyside Golf Club.

COLORADO

A regular meeting of the Colorado Society was held on the evening of October 28, 1935, at the Denver Athletic Club.

Harry W. Nelson reported on the recent annual meeting of The American Society and Clem W. Collins reported on the convention of the American Institute.

MINNESOTA

At a regular meeting of the Minnesota Society of Certified Public Accountants held on September 24, Abe Calmenson discussed "The Accountant's Field and Some Phases of the Federal Tax Laws."

Index to Volume XV

(July-December, 1935)

American Society, The:

Annual Meeting, 1935:

Account of	600
Addresses at:	
"Administrative Problems in Accounting Offices"	418
"Auditing and Accounting for the Agricultural Adjustment Administration," John B. Payne	649
"Farm Credit System, The," E. H. LeMasters	711
"Future, A Look at the," William C. Heaton	644
"Practice before the U. S. Board of Tax Appeals," Charles M. Trammell	582
Announcement	388
Banquet	602
Banquet address (1934) "Today," John T. Madden	454
Conference of State Board Members	697
Convention of State Representatives	601
Directors Meetings	611
Golf Winners	601
One National Organization discussion	604
Resolutions	603
Constitution—proposed amendment to	610
Presentation re S. 2512 (Lobbyist Bill)	481

Announcements447, 511, 576, 640, 691

Articles:

Administrative Problems in Accounting Offices ..	418
Advertising	636
Agricultural Adjustment Administration, Auditing and Accounting for the, by John B. Payne ..	649
Audit Program and Procedure, General, by Herman M. Knoeller	589, 666, 717
Audits in Idaho, Regulation of County and City, by Truman Joiner	406
Bidding, (Louisiana Society rule)	501
Bidding (Mississippi Society resolution)	443
Blessings	755
Bond Discount and Expense Applicable to Refunded Issues, Accounting for, by William M. Shanahan	543
Bonds, Accounting for Serial, by Leslie McNoy	399
Capital and Labor in Ancient Rome, by Herman Herwood	740
Certified (?), by Charles Weissinger	574
Corporations, Accumulation of Income by Non-profit, by H. Arnold Strangman	410
Corporations, Fallacy of Graduated Income Taxes on, by Edw. P. Tremper, Jr.	544
County Auditing and Bookkeeping, by George Morris	491
County and City Audits in Idaho, Regulation of, by Truman Joiner	406
Credit Man and the Accountant (New Zealand) ..	485
Crossroads (poem)	619
C.P.A., The, (poem) by Jane Allen Searson....	675

Depreciation Accounting—1675	708
D.R.O.P., by Harold H. Haight	415
Education Committee, Report, Oklahoma State Society	742
Farm Credit System, The, by E. H. LeMasters..	711
Finances, The Functions of the Accountant in Coordinating Operations and, by Alexander S. Banks	521
Financial Statement, The Weak Link in, by Samuel Bertcher	391
Future, A Look at the, by William C. Heaton..	644
Income, Expenditure Incurred in Earning (Australian case)	412
Income by Non-profit Corporations, Accumulation of, by H. Arnold Strangman	410
Inflation, by Hal Crouch	721
Intellectualist vs. The Materialist in Accountancy, by Maurice V. Genes	744
Law, The Case for the Auditor at Common, by A. C. Leslie	525
Lawyer, The Forgotten, by R. Allan Stephens..	570
Mouse Hunting in Germany, by Geo. F. McNichols	551
Municipal Accounting, Present Trends of, by H. A. Harrison	486
Natural Business Year (ref. to listing of closing dates)	501
News Behind the News, by Paul Mallon (reprint)	636
Operations and Finances, The Functions of the Accountant in Coordinating, by Alexander S. Banks	521
Organization for C.P.A.'s, Usefulness of, by Joseph Thieberg	738
Organization, Single National, Suggested Plans for	604
Organizations, Accounting, by D. W. Springer..	457
Practice in the Smaller Communities, Accounting, by Geo. W. Sims	733
Profession or a Business, Is Accounting a, by Frank Wilbur Main	516
Public Accountant, The, by F. E. Ross	546
Red Cross, The	705
Refunded Issues, Accounting for Bond Discount and Expense Applicable to, by Wm. M. Shanahan	543
Relief Expenditures, Accounting for Cash, by Howard C. Beck, Jr.	471
Remuneration, Basis of Accountants' (England) ..	393
Responsibility, The Accountant's, by George P. Ellis	403
Room? What Is a.	739
Service Charges—Sugar Coated	676
Social Security Act. The.	755
Social Security Act, by George P. Ellis	694
Social Security Act, by Roy Katz	736
South America, Accounting in, by Wilbert J. Smith	618
Speculative Boom, Dangers of (reprint)	716
Standards, Raising C.P.A., by Boris Baievsky..	676
Statement, The Weak Link in the Financial, by	

Samuel Bertcher	391	Theory of Accounting	444
Tax, Ancient "Sales"	414	Financial Statements, Seen in Published, by W. T. Sunley :	
Tax Appeals, Practice before U. S. Board of, by Charles M. Trammell	582	Inclusions in and Exclusions from Inventories..	462
Tax Decisions of the Supreme Court, Some Income, by Harry L. Kunze	395	Income Statement, At the Head of	682
Taxes on Corporations, The Fallacy of Graduated Income, by Edw. P. Trempær, Jr.	544	Marketable Securities	725
Test of Ability for Accounting (note)	473	Reservations of Capital Stock	536
Women in Banking	612	Legislation :	
Boards of Accountancy, State:		Amendment to AAA not passed	588
Conference of Board Members at Kansas City...	697	Constitutionality of—Taney re police power	461
Constitution adopted	697	Re engineering corporations (New York)	519
Georgia—Members appointed	693	Florida C.P.A. law amended	508
Indiana—Member appointed	576	Lobbyist Bill, Presentations before House Judiciary Committee:	
Kentucky—1935 Register	503	By American Bar	474
Maryland—Member appointed	503	By American Society	481
Michigan—Member appointed	503	Minnesota Probate Code	569
North Carolina—Member appointed	693	Wisconsin Regulatory law	593
Oregon—Member appointed	503	Medical Association, American:	
Pennsylvania—Member appointed	503	Confederation of State Societies	485
West Virginia—Members appointed	693	Memoriam, In	573, 575, 581, 693
Book Reviews	492, 552, 752	Homer A. Dunn	430
Canada—Association and University cooperate	524	Resolution re	603
Civil Service Examinations announced	576	John B. Tanner	692
Convention City	494, 495, 518	National Association of Cost Accountants:	
Court Decisions:		First paper at convention	510
"Case for the Auditor at Common Law," A. C. Leslie (Australia)	525	Notes	447, 637
"Golden Horse Shoe Ltd. vs. Thurgood. (Australian case re expenditure incurred in earning income)	412	Questions and Answers	437, 496, 558, 613, 679, 751
"Some Income Tax Decisions of the Supreme Court," by Harry L. Kunze	395	Readers Forum	618
Directors, Board of:		Reports:	
Elected 1935-36	453	Committee on Calendar Simplification	628
Meetings	601-3, 611	Committee on Classification and Certification of Accountancy Services	628
Editorials:		Committee on Complaints	700
Accountants Digest, The	581	Committee Cooperating with Credit Groups	698
Auditing One's Self	580	Committee on Cooperation with National Association of Credit Men	627
Five Maxims for Proper Development	452	Committee on Endowment Fund	629
Goodbye 1935—Welcome 1936	710	Committee on Governmental Accounting	631
Loyalty, by William C. Heaton	451	Committee on Federal Legislation	701
Membership in a Professional Organization, by Wm. D. Morrison	709	Committee on State Legislation	627
New Occasions Teach New Duties, by Wm. D. Morrison	643	Committee on One National Organization	757
One National Organization, by Wm. D. Morrison ..	579	Committee on Natural Fiscal Year	626
Privilege, A, by William C. Heaton	387	Committee on Relations with State Organizations	626
Profession or a Business? Is Accounting a, by Frank Wilbur Main	516	Committee on Cooperation with Trade Groups....	755
Professional Year, Another	581	Financial Statements	635
Research in Accountancy, by William C. Heaton ..	515	President's address	644
State Certificates	641	Secretary's report	624
State Societies	449	State Representatives:	
Vigilance for Security (Reprint)	388	Convention	601
Work, by Frederick H. Ecker (Reprint)	520	Elected 1935-36	389, 453
Engineers, National Society of Professional	638	State Societies:	
Examination Questions:		Officials meet at Kansas City	601
The American Society Service (May, 1935):		California—Annual meeting	501
Auditing	748	Mid-Year Meeting	765
Commercial Law	621	Officers	501
Economics and Public Finance	677	Questionnaire on meetings	441
Practical Accounting (1-5)	504	Trade Groups, letter re	441
Practical Accounting (6-10)	563	Los Angeles Chapter—Annual Meeting	441
		Directory listing	441
		Meetings,	702, 765
		Officers	441

San Francisco Chapter—Meeting	702
Colorado—Annual meeting	702
Meeting	765
Officers	702
District of Columbia—Annual Meeting	441
Meeting	703
Officers	442
Florida—Annual meeting	442
Officers	501
Jacksonville Chapter—Meetings	501
Tampa Chapter—Reorganized	572
Georgia—Bulletin	501, 703
Augusta Chapter—Organized	639
Indiana—Year Book	572
Kansas—Meeting	572
Re college requirements	572
Louisiana—Re bidding	501
Maryland—Annual meeting	442
Officers	442
Massachusetts—Annual meeting	442
Meeting	639
Officers	442
Michigan—Annual meeting	443
Officers	443
Central Chapter—Officers	572
Western Chapter—Officers	572
Minnesota—Annual meeting	502
Bulletin	572, 639
Meetings	703, 765
Officers	502
Mississippi—Annual meeting	443
Bidding, resolution	443
Officers	443
Missouri—Annual meeting	502
Officers	502
New Mexico—Annual meeting	443
Membership roster	639
Officers	443
New Jersey—Meeting	703
Officers, change in	502
Ohio—Annual meeting announced	443
Oregon—Annual meeting	503
Officers	503
Pennsylvania—Annual meeting	502
Officers	502
Harrisburg Chapter—Officers	503
Philadelphia Chapter—Annual meeting	503
Officers	503
Pittsburgh Chapter—Officers	503
Scranton Chapter—Officers	503
Philippine Islands—Officers	704
Virginia—Annual meeting	639
Bulletin	704
Officers	639
Washington—Annual meeting	443
Officers	443
Spokane Chapter—Bulletin	572
Officers	444
West Virginia—Annual meeting	704
Officers	704
Wisconsin—Officers	503
Madison Chapter—Officers	503
Milwaukee Chapter—Officers	503
Northern Chapter—Officers	503
Talking Shop	433, 489, 561, 615, 673, 745
Trip, Secretary's	556
Wee Bits on Accountancy, by Louis S. Goldberg:	
Association Membership	494
Conflict, Of	619
Irregular Accounting and Irregularities	545
More and More About Less and Less	747
Philosophic Mood, In	437
Understanding Technique, On	696

ANNOUNCING a NEW EDITION

**"An Essential Part of Your Preparation
for C.P.A. Examinations" . . .**

WHEN you go before the examining body, you must be prepared to answer not only questions of accounting but also questions of law. Are you thoroughly familiar with the type of law question that is asked in C.P.A. examinations? Do you know how such questions should be answered? It will pay you to send for

C.P.A. Law Questions and Answers

By John C. Teevan, LL.M.

*Member of the Chicago Bar; Professor of Business Law,
Northwestern University*

THIS new series of law questions and answers covers all the examinations given by the American Institute of Accountants from November 1926 through May 1935. Included are 20 examinations and over 200 law questions, with answers by an authority who has given special attention to this section of the papers.

The questions cover a much wider range of law than included in Mr. Teevan's first work published in 1925. Additional subjects on which questions appear for the first time include Bailments, Carriers, Conditional Sales, Wills, Real Property, and others. The questions given in the examinations for the past ten years are more difficult than formerly.

In framing his answers to the questions, Mr. Teevan has intentionally made them longer than would be justified in an actual examination. This has been done to bring out in considerable detail all the facts and application of the rules of law. In short, the author has attempted to make the answers serve as a review of the subject of business law insofar as the scope of the particular question permitted.

Important Suggestions on Technique

In addition to his answers to the law questions, Mr. Teevan gives numerous suggestions—16 in all—on the technique of writing examination papers. These points are extremely valuable to anyone contemplating the examinations and in themselves are well worth the price of the volume.

A 23-page index makes it possible to locate all the questions on any one subject—increasing the reference value of the book. Appendices include the Negotiable Instruments Law, the Uniform Sales Act and Uniform Partnership Act. **\$3.00**

Send for This New Book

BEFORE you enter any accounting examination, you should study carefully, both for form and substance, the material in this inexpensive new book. Let us send you a copy on a 5-day make-good basis, so that you can see for yourself the help it offers.

Use the handy order form below

THE RONALD PRESS COMPANY

Dept. M61, 15 East 26th St., New York, N. Y.

Please send me a copy of the newly issued **C.P.A. Law Questions and Answers** by John C. Teevan. Within five days after I receive it, I will remit \$3.00, plus a few cents for delivery. Or, if the book is not satisfactory, I will return it. (We pay delivery if you send cash with order.)

Name (please print)

Firm or Reference Position

Business Address

City State

FOR SALE

Bound Volumes
of
The Certified Public Accountant



Volume	II—Year 1923	\$5.00
Volume	III—Year 1924	5.00
Volume	IV—January to June, 1925	3.00
Volume	V—July to December, 1925	3.00
Volume	VI—Year 1926	5.00
Volume	VII—Year 1927	5.00
Volume	VIII—Year 1928	5.00
Volume	IX—Year 1929	5.00
Volume	X—Year 1930	5.00
Volume	XI—Year 1931	5.00
Volume	XII—January to June, 1932	3.00
Volume	XII—July to December, 1932	3.00
Volume	XIII—January to June, 1933	3.00
Volume	XIII—July to December, 1933	3.00
Volume	XIV—January to June, 1934	3.00
Volume	XIV—July to December, 1934	3.00
Volume	XV—January to June, 1935	3.00
Volume	XV—July to December, 1935	3.00

The Accountants Publishing Co.

National Press Building

WASHINGTON, D. C.

TO Accountants

**WHO ARE HELPING THEIR CLIENTS
OBTAIN MORE DETAILED INFORMATION
ABOUT INDIVIDUAL EMPLOYEES'
PAYROLL AND EARNINGS
RECORDS**

While you are helping your clients meet any new requirements for information about earnings and deductions records of individual employees, be sure to investigate Burroughs new machine developments affecting this work.

There are now many types and styles of Burroughs machines for handling this work, such as machines which compute earnings and prepare individual's earnings record, payroll sheet, pay check or pay envelope all in one operation. They also automatically accumulate such labor statistics as hours, earnings, various deductions, and net pay for any period. In fact, much of the needed earnings and deductions information can be obtained as a by-product of the regular work of these machines.

Our local office will be glad to demonstrate these new machines, and show you how they can be applied to your problem. You may telephone, or call at, our local office; or write direct to Detroit.

**BURROUGHS ADDING MACHINE COMPANY
DETROIT, MICHIGAN**

Burroughs

WHEN ANSWERING ADVERTISEMENTS MENTION THE CERTIFIED PUBLIC ACCOUNTANT